ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 169 Number 4784 New York, N. Y., Thursday, March 10, 1949 Price 30 Cents a Copy

Government Spending And Private Investment

By HARLEY L. LUTZ*

Professor Emeritus of Public Finance, Princeton University

Dr. Lutz, after analyzing components of gross national product and expenditure in 1948 and disposition of personal income in same year, contends an adequate investment flow is essential to maintain the private economy. Points out present taxes reduce investment funds below level of capital expansion essential to our economy.

One of the most demoralizing results of the long period of deficit financing has been the belief that government spending has virtues which set it apart from other forms of spending. Now that price breaks at various points have raised the possibility of some degree of decline from the post-war inflation peak, renewed emphasis is being laid upon an increase of public spending to avert a decline. There is, unfortunately, every prospect that government spending will increase, entirely apart from the question whether it would be necessary or efficacious as a method of holding the line against recession. The spenders have the whip hand and are driving hard. No extended argument is needed to demonstrate that wasteful excesses—which are inevitable when large sums are involved — can never create nor sustain prosperity. The

Dr. Harley L. Lutz

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*A more detailed treatment of this topic by the present writer is to be issued in the near future by The National Association of Manufacturers.

Evils of SEC and the Way Out

By BENJAMIN M. ANDERSON, Ph.D.*

Dr. Anderson criticizes hampering and expensive details of SEC regulations, particularly in registration and prospectus requirements, and says these are not needed to obtain "Truth in Securities." Denounces competitive bidding as precluding enduring relations between banker and client, and points out existing distrust of Securities and Exchange Commission by securities industry. Pictures SEC as "greedy for power," and proposes a change from bureaucratic regulation by abolishing SEC and placing its functions with Department of Commerce, under a revised and clarified law, and organizing a Department of Justice division to prosecute criminal abuses in security dealings.

CONCLUDING ARTICLE

The first two articles of this series[1] dealt with the causes of the business crisis of 1937, and with the impaired efficiency of the securities market which greatly intensified it. The weakness and "thinness" of the stock market were explained as due to (1) the elimination of men of wealth from active trading by high income and capital gains taxes: (2) the elimination of informed traders under the rule which made "insiders" liable to suit by stockholders if they made any profit on their trading; (3) the inquisitorial practices of the Securities and Exchange Commission, which still continue; (4) the restrictions on specialists and floor traders; (5) the high margin requirements; (6) the restrictions on short-selling; (7) the hostility of the Securities and Exchange Commission to the idea of marketability, despite the long standing policy of Congress, which emphasizes marketability as an essential attribute of investment securities.

Benj. M. Anderson

Recognizing the need and desirability of legislation to prevent stock market abuses, and compel "truth in securities," the writer none the less concluded that the Securities and Exchange Commission has done much more harm than good. The present article continues the criticism of the policies of the Securities and Exchange Commission, and proposes a radically different approach to the problem.

The British Law requiring "truth in securities" is ordinarily satisfied by a prospectus of four pages or less. The prospectuses issued under the British law are brief, clear, readable documents. A whole year's series as repro-

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*The adjoining article is the third and final article based on chapters which will appear in the late Dr. Anderson's forthcoming book on financial history from 1914 to 1946 to be entitled "Economics and the Public Welfare" and to be published by D. Van Nostrand & Co. Dr. Anderson, until his death on Jan. 19, was Connell Professor of Banking at the University of California, Los Angeles, and Consulting Economist of the Capital Research Co., Los Angeles. He was formerly economist of the Chase National Bank. At the time of his death Dr. Anderson was also President of the Economists' National Committee on Monetary Policy.—Editor.

1 The Commercial & Financial Chronicle Feb. 24, Page 1 and March 3, Page 1.

EDITORIAL

As We See It

Expecting Too Much of Trifles

Federal Reserve authorities have, as expected, cut and run on Regulation W. A good deal was made last year of the importance of having the Board possess the power to impose restrictions upon consumer credit, and not a little was said when action was taken in the fall about the value of the restrictions then imposed as a means of preventing or at least of helping to prevent "inflation," or as the phrase then went, a "boom and bust" sequence of events. The fact is, though, that one studies the figures covering this subject since last autumn in vain for much evidence that the regulations imposed had a great deal of effect one way or another. Certainly, a good deal of imagination is necessary to attribute any very substantial part of the rather modest decline in such credit outstanding at the end of January to the restrictions imposed four months earlier.

But many of the usual indications of business activity have of late been behaving in a way to give officialdom uneasiness. The powers that be have, or many of them have, been doing their best to drive away the danger or the apprehension of danger by proclamation and reiterated assurances that there was and is no recession or depression of importance "just around the corner." But the insistence, so repeatedly ding-

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Let's Stop March Into Death Valley of Socialism

By WALTER E. SPAHR*

Professor of Economics, New York University

Executive Vice-President, Economists' National Committee on Monetary Policy

Stressing importance of individual liberty, Dr. Spahr warns unless the march of socialism and communism is halted, the gate will some day suddenly snap shut on us. Denounces planned economy on ground "no government or collection of bureaucrats can compare in efficiency and intelligence with mass of people who are free to vote their dollars as they think best." Points to sound currency system as integral part of good economy and as basic instrument for assuring human freedom, and attacks present monetary system as a creeping disease which is leading to loss of power of people to control public purse. Holds both leading political parties lack efficient leadership, and proposes present national debt be converted into perpetual consols.

If we would arrest our march into the Death Valley of Socialism, responsible leaders of this country must understand, and fight for a return to, the principles of Economics yielded by the private-enterprise-competitive system. Among the basic principles taught by Economics in respect to freedom of private enterprise and government regulation are these:

Walter E. Spahr

(1) The greatest benefits are provided the greatest number of people when free and fair competition prevails in those areas where it can function.

(2) In those areas where natural monopolies operate, their regulation should be of such a nature as to produce the conditions that result from free and fair competition.

(3) Government should operate only in those areas in which competitive private enterprise or regulated monopolies cannot or do not function, and only when the cost accounting system of private enterprise are employed and the people in general understand and approve the costs involved.

(4) A governmentally-managed economy brings social and economic stagnation and retrogression, and the degradation of human beings.

The Basis of Objective Standards of Right and Wrong in the Economic World

It obviously needs to be emphasized these days that we have no objective—that is, scientific—standards of right and wrong, of good and bad, in the economic world except those yielded by the operation of the forces of free and fair competition.

Every appraisal by any person as to what is desirable or undesirable in the economic world rests upon some subjective basis unless that appraisal is grounded upon the principles derived from the operation of the forces of free and fair competition.

And subjective appraisals have no validity in so far as reliable knowledge is concerned. It is only the procedure of scientific methodology that can provide reliable answers to human problems and questions.

There are no principles of Economics that meet the tests of science except those learned from the operation of the forces of free and fair competition. The principles of monopoly are stated against the background of those of competition. Monopoly prices are said to be high prices because they are measured against those that competitive enterprises tend to produce. The productive activity and costs of a Socialist State are measured and appraised, if measured and appraised objectively, against the conditions that tend to prevail under conditions of free and fair competition.

Our Drift Into Subjective Appraisals

To a high degree—apparently to what is for us an unprecedented degree—we have drifted from objective, to subjective, appraisals of what is good or bad, desirable or undesirable, in the economic world. The subjective approach to human problems is the approach of the untutored, of the tyrant, of the person who would substitute his will and power for what scientific procedures teach us are good or bad, right or wrong.

There are apparently many reasons why we have moved so rapidly in recent years from objective to subjective appraisals in the economic world. But among them should be listed the regrettable fact that our high schools, colleges, and universities, for nearly a generation, have done such a poor job of teaching the nature, principles, and implications of scientific method. It seems reasonably clear that most of the college graduates of the current generation have only the vaguest, if any, understanding of the fundamental differences between objective and subjective appraisals of economic phenomena. A great proportion of the textbooks in Economics produced in recent years contain, essentially, subjective appraisals and agitations by their authors, rather than the objective principles of science. This brand of Economics has for the most part become an arm of our Socialist political movement. It has made Washington its headquarters.

Apparently it is not too much to say that in general we have abandoned the objective for the subjective procedures in the economic world. It is not clear that we are keenly and generally aware of what we have done or of the significance of it. We have slumped to the level of slogans and labels in lieu of the careful thinking of science. People who call themselves scientists in Economics strike attitudes instead of getting and presenting facts in the manner of the scientist. They adopt leaders and proclaim themselves as followers, thus disqualifying themselves as independent, competent, truth-seeking individuals.

These posers and assumers-of-an-attitude attempt to settle issues in the economic world by proclaiming themselves as "Liberals," "Conservatives," or "Reactionaries." They are not careful, as is the scientist, to explain what it is they are liberal about, or what it is they wish to conserve and why, or what it is they are reacting against and why. As one observes the common use of the world "Liberal" these days, and the attitude of those who like to call themselves "Liberals," it seems proper to conclude that, in many, if not most of these instances, "Liberalism" means practically nothing but Socialism or Communism or being liberal with other people's money. There are intelligent, thoughtful, responsible people who find no defensible basis on which to be liberal with other people's money instead of with their own; who wish to conserve our great heritage of wealth and of private enterprise and freedom; who react against measures that will impair or lose for us this great heritage.

We also hear and talk much today about the "Welfare State" without stopping to consider accurate definition of it. Perhaps all that need be said about that popular and allegedly-virtuous

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*An address by Dr. Spahr before the Economic Club of Detroit, Detroit, Mich., March 7, 1949.

Articles on Investment Salesmanship

Attention is called to the current series of lectures on INVESTMENT SALESMANSHIP, sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the CHRONICLE. The initial lecture, by Alfred C. Neal, Vice-President and Director of Research of the Federal Reserve Bank of Boston, was given in the CHRONICLE of March 3 (on page 4). The second in the series, by Wallace G. Strathern, Sales Training Executive for Eastern Gas & Fuel Co., and President of the National Society of Sales Training Executives, appears on page 4 in today's issue.

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Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, March 10, 1949

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.)

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.) Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

How Low Might the Stock Market Go?

By JOHN M. TEMPLETON
Templeton, Dobbrow & Vance, Inc., New York City

Stock market analyst, in weighing factors causing stock price fluctuations, reviews effects of (1) corporate earnings; and (2) changes per share in reproduction cost of corporate assets. Concludes, on basis of his analysis, Dow-Jones Industrial Average may never again sell as low as 98, and, within decade, present level will probably appear as a bargain market.

The stock market has been going down for two years and nine months. For all common stocks on the Stock Exchange and the Curb Exchange, the median decline from the peak price has been 40%. Business prosperity, as distinct from stock prices, reached a peak five months ago and has subsequently declined at an accelerating rate. There are reasons for thinking that this decline in business prosperity may continue for a year or two. Therefore, the question arises: "How low might stock prices go?"

John M. Templeton

The Dow-Jones Industrial Average is now about 172. At the major bear market low in 1942, this Index was 92. At the major bear market low in 1938, it was 98.

But conditions have changed since those days. Wars tend to cause stock prices to fluctuate in a higher range than previously. This has been an uniform phenomenon in every nation with every major war. For example, in the United States, the highest peak ever reached by the Dow-Jones Industrial Average before the first World War was 102 (adjusted) in January 1909. The postwar peak twenty years later was 381. Since the second World War cost the United States above five times as much as the first World War, it could be logically argued that its effect on the future range of stock prices might be even greater.

To arrive at a useful conclusion about the question, "How low might the market go?" it is necessary to inquire into the factors which cause a relatively permanent alteration in the range of fluctuations. The two most influential and most directly causal factors are: (1) changes in corporate earnings, and (2) changes in the reproduction cost per share of corporate assets.

Stock prices are determined largely by earnings. If current earnings are higher than past earnings, then it might be said that the same degree of increase should be expected for current stock prices as compared with past stock prices. No one knows how low earnings may go in the next depression but we do know that the peak of earnings on industrial stocks per share last year was $21.00 approximately, whereas the earnings peak next preceding the 1942 bear market low for stock prices was $10.20 and the peak of earnings next preceding the 1938 bear market low was $8.67. These figures are taken from Table I, which shows a record of earnings on industrial stocks each year for fifty-nine years.

TABLE I

1890	$1.72	1910	$4.98	1930	$6.33
1891	2.99	1911	3.62	1931	1.88
1892	3.69	1912	4.22	1932	*0.27
1893	3.28	1913	4.90	1933	2.10
1894	2.15	1914	3.26	1934	3.43
1895	2.56	1915	7.23	1935	5.12
1896	1.42	1916	16.93	1936	7.87
1897	1.68	1917	13.92	1937	8.67
1898	2.06	1918	8.99	1938	4.08
1899	4.57	1919	8.20	1939	7.25
1900	3.06	1920	7.97	1940	8.94
1901	3.06	1921	*0.31	1941	10.20
1902	5.93	1922	4.70	1942	7.85
1903	3.28	1923	7.13	1943	8.05
1904	2.30	1924	6.52	1944	8.63
1905	4.46	1925	9.92	1945	8.60
1906	6.53	1926	9.56	1946	8.81
1907	5.80	1927	8.53	1947	14.61
1908	2.85	1928	10.83	1948	†21.00
1909	4.86	1929	11.95		

*Deficit. †Estimated.

The 1942 bear market low of 92 on the Dow-Jones Industrial Average was 9.0 times the preceding earnings index peak. The 1938 bear market low of 98 was 11 times its preceding earnings index peak. The current level of 172 is only 8 times the 1948 earnings peak. This is one straw in the wind which indicates that stock prices may not go much lower than they are now.

It is interesting to see from Table I that the earnings index fell from a wartime peak of 16.93 in 1916 to a postwar deficit of 0.31 in 1921. But the bear market low for stock prices in 1921 was only 42% below the 1916 peak of stock prices. This particular com-

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Pointers for Salesmen—A Baker's Dozen

By WALLACE G. STRATHERN*
Sales Training Executive, Eastern Gas & Fuel Co.
President, National Society of Sales Training Executives

Prescribing as standard salesman's equipment knowledge of his product or service, hard work, and personality, Mr. Strathern lays down as baker's dozen of sales suggestions: (1) learn to like people; (2) have a friendly smile; (3) be generous with honest praise; (4) listen to your prospects; (5) talk in terms of "you," not "I"; (6) learn to agree before you disagree; (7) don't argue with your customer; (8) don't be afraid to say so, when you are wrong; (9) use showmanship in your selling; (10) understand other fellow's viewpoint; (11) don't knock; it destroys confidence; and (12) be observant. Stresses basic concept, "we must sell ourselves before we sell our service."

Inscribed upon the wall of the Kipling Room of the Toronto Public Library are these words, "What you do when you don't have to determines what you will be when you can't help it." It seems to me, gentlemen, that those words are particularly pertinent tonight as we discuss this topic, "Standing Still or Going Ahead."

W. G. Strathern

Let me say at the outset that I am not going to attempt to tell you how to do your jobs, because I couldn't do it if I wanted to. I would like to talk to you about your individual, your personal, reconversion plans, what just a few years ago you might have called your personal or individual postwar plans. I hope you made some for yourselves on an individual basis. I have found that many men did, and a great many more did not. I find that there are two particular reasons why men did no postwar planning for themselves; either they thought things were going to be so good after the war that they would not need to do it, or conversely, they thought it would be so bad that it wouldn't do any good to make any. I think you will agree with me, upon a little reflection, that both of those lines of reasoning are somewhat specious.

Speaking of individual personal postwar plans reminds me of a rather sad story out of the South Pacific about two soldiers going to be court-martialed for striking a superior officer, a rather unpopular colonel. The two soldiers were a private and a sergeant. The sergeant was brought in first and was duly charged with the crime of striking a superior officer and he was given a chance to tell his story. It wasn't a very good one. It seemed that he had been outdoors all day and came in the barracks at night and the barracks were crowded and somebody stepped on his pet corn. And being a typical sergeant, he swung from the floor and unfortunately he hit the colonel's chin.

They had to think that over for a while, so they dismissed him temporarily and brought in the private and he was charged with the heinous crime of striking a superior officer. And his story was pretty pathetic. It seemed that he had been out in the barracks kitchen from morning until night washing dishes and he was very tired. He came through the door that night with both arms loaded down with dishes; he pushed the door open with his shoulder, and looked up, and he said he saw the sergeant socking the colonel and he thought the war was over, so he socked him, too.

There was a fellow who was doing a little personal postwar planning on his own, not of too practical a nature. The kind I want to talk to you about, fellows, is a little more, I think, on the practical side; it is that we learn to become better salesmen, more effective salesmen.

Now, on the off chance that there are any vice-presidents in charge of production, any accountants, auditors, or other ilk that have sneaked in here and don't think this talk is for them, let me say with all the emphasis at my command that *every man in the room is a salesman*. Irrespective of your vocation or profession, you, too, are selling, because life itself is one long selling job.

If you are the boss, you have to sell your employees today, as well as tell them. If you are the employee, you had to sell the boss and you have to continue to sell him. And I submit that even if you are only married, you are constantly having to do a selling job. And I submit that you gentlemen who are married did an outstanding job on the occasion that you proposed to your wife. Of course, some of you may feel that you did a bit of over-selling on that occasion. But it is a fact that we are all salesmen.

Tom Sawyer was a salesman: he sold his playmates on the idea of whitewashing the back fence. Patrick Henry was a salesman: he sold the colonists the courage to fight for liberty. Christopher Columbus sold Queen Isabella on a short route to the Indies. Socrates was a salesman; he sold a new set of values and a better way of life. Henry Ford was a magnificent salesman; he sold the American public the horseless carriage.

So we are all salesmen. But the question is, how good are you, how effective are you in action today, in 1949? I submit that we have to learn to become effective.

And so, gentlemen, I am going to talk to you tonight about some very obvious, some very trite, and some very simple things. And they are so simple and so perfectly obvious that some of you may laugh like the devil when you get out of here. But I don't care, because I am just as sure as I am standing here that these are the important things to think about in your career as a salesman.

And I would remind you that successful selling is so simple that it isn't obvious to the average person. Let me say that again: successful selling is so simple that it isn't obvious to the average person. I think it was Oliver Wendell Holmes who said, "The emphasis of the obvious is more important than the elucidation of the obscure." And so, I am going to take the opportunity to emphasize the obvious. And, gentlemen, some of the things I may say to you, you may not agree with me on, because I can see by looking at some of you that you have been out there and you know the score.

I have found in some 25 years of selling and trying to help salesmen do a better job of selling, that very often they know more about the subject than I do. It is usually true that the audience, or part of it at least, think they know more about the subject than the speaker. And it is inevitably true that the students think they know more about the subject than the teacher.

There was a Boston University professor lecturing his boys on the evils of whiskey. Now, it is quite possible that the boys knew more about the subject of whiskey than the professor, because when you get older you are not interested in such things. So to illustrate and dramatize his lecture, he took an ordinary glass of water into which he dropped an angle-worm to illustrate to his class how the worm thrived on water. Then removing the worm, he dropped it into a glass of whiskey, to demonstrate how brief was the existence of the worm in the whiskey.

And then he said to the class "Boys, what is the moral?" They were very quiet for a moment, and finally one bright lad in the back row said, "I know, professor: drink more whiskey and you will never have worms." So you see, they knew more about it than the professor and that might be true here tonight. I don't care, but I want you to know that I am really quite modest about these ideas.

Standard Equipment of Salesman

Well, now, my friend Jack Lacey says that there are three things that should be standard equipment with every salesman, irrespective of what he sells. The first is the *technical knowledge about his product or service*—in your case service—what it is, what it does, how it compares with his competitors. And he is broadminded enough, if he is smart, to realize that it isn't just his competitor in that field, but everybody who is trying to get his prospect's dollar. And, particularly, how his product or service fits into the prospect's scheme of things.

Now, gentlemen, that product or service information is vital.

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*A lecture, delivered by Mr. Strathern, second in a series in a course on Investment Salesmanship, sponsored by Boston Investment Club and Boston University, Boston, Mass., Feb. 7, 1949.

Railroad Investments —A Selective Market

By HERBERT F. WYETH*
With Shields & Company
Members, New York Stock Exchange

Asserting railroad industry is not decadent, security analyst stresses importance of selection in purchasing railroad stocks. Holds weak companies have been a drag on railroad securities and this has led to pessimism regarding entire group. Points out, as optimistic factor, heavy reductions in bonded indebtedness and stable wage costs in relation to revenues of rails, and concludes, despite serious problems, there are many fundamentally sound rail stocks that have immediate and long-term potentialities as investments.

It is four years, almost to the day, since I last had the opportunity to address the members of the Association of Customers Brokers. In the intervening period there has been a complete reversal of speculative and investment sentiment toward railroad securities. Four years ago I had difficulty in repudiating a reputation as a bear. This reputation stemmed from my unwillingness at that time to accept all rail stocks with enthusiasm. Today I am accused in many quarters of being an unrealistic bull. This present reputation stems from my unwillingness at this time to look upon all railroad securities with a jaundiced and pessimistic eye, without discrimination.

Herbert F. Wyeth

There is a widespread, but entirely unreasonable and indefensible, tendency in the financial community to consider the railroads as one single investment problem. There is an unwillingness to give any consideration to the widely varying characteristics of the individual properties, or to individual records and prospects. It never has been, and in my opinion never will be, possible to formulate any sound investment program if you are content to look only upon the industry as a whole. There can be no ignoring of the fundamental weaknesses, and basic elements of strength, inherent in the individual company.

To consider at any given time that all railroad securities are either attractive or unattractive, or to say that all railroads are going to report substantial profits or sustain sizable losses, is completely to ignore the record and shut one's eyes to the facts. It would be just as sensible to contend that because, for instance, General Motors is doing a large volume of business and reporting handsome profits the same must necessarily be true of Kaiser-Frazer, Packard, Tucker, and all other automobile manufacturers.

It is true, generally speaking, that over a short term railroad securities as a group tend to move on a parallel course. In periods of all-out optimism such as culminated in mid-1946, even the poorest of the rail stocks will attract a substantial speculative following. Conversely, in periods of abject pessimism even the best and basically soundest stocks will encounter a considerable amount of selling pressure. Over the intermediate and longer terms, however, the fundamentals will inevitably and eventually win out. Securities of the individual railroads will seek their proper levels in relation to other rail securities, and in relation to securities of companies engaged in other lines.

Psychological Drag on the Rails

There is one serious psychological drag on railroad securities. The weak sisters are rarely, if ever, eliminated. They can not, as a practical matter, be abandoned even in the face of consistently recurring deficits. They just remain in operation to distort the general railroad picture and give the whole industry a black eye. They are continuously in the public consciousness as a reminder of some basic weakness that may well be peculiar to the one property. If an industrial company can not make a go of it and consistently sustains deficits it just goes out of business. It is easy for people to forget about it, and they do not come to look upon every other company engaged in the same line as tarred with the same brush.

Many people have come to look upon railroading as a decadent industry, able to make money only under extraordinary conditions. Nothing could be further from the truth. I have consistently stressed, and would like to stress again, the fact that railroading is one of our most consistently profitable enterprises. The industry as a whole has never failed to report profits from operations. As a matter of fact, very few individual railroads have ever reported operating deficits in any single year. This is a far better record than can be claimed by many of our other major industries which, nevertheless, still enjoy a large measure of investor regard. In the poorest year of their depression history Class I railroads as a whole reported net operating income of about $375 million.

A large part of the railroads' troubles, and a large part of the pessimism toward this group, can be traced to past financial mistakes and the heavy burden of fixed charges. These fixed charges consist of interest on debts, leased line rents, etc. Up to about 15 years ago it was the general policy when additions and betterments were made to railroad properties to capitalize them through the issuance of more or less permanent debt. Except for serial equipment obligations little, or no, provision was made for the systematic retirement of such debts. It was taken pretty well for granted that when the bonds matured they would just be refunded with another similar issue. The theory was that if the property was well maintained it retained its value permanently.

This philosophy has been entirely reversed in recent years. On virtually all term bonds sold for some time past sinking funds have been provided, thus assuring gradual paring of debt structures. In its reorganization plans the Interstate Commerce Commission has provided for Additions and Betterment funds, generally based on a percentage of gross revenues and ranking ahead of Income bond interest. Improvements made through these funds can not be capitalized in the future by issuance of debt or other securities. The Commission now requires that certain way and structure properties be depreciated. As a final consideration, railroad management

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*An address by Mr. Wyeth before the Association of Customers' Brokers, New York City, March 4, 1949.

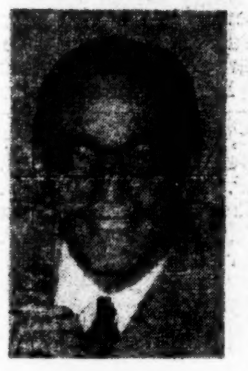
Observations . . . .

By A. WILFRED MAY

More on Rationalizing Market Action

In preceding weeks this column has cited the community's habit of shifting the emphasis in its news interpretation in unwitting conformity with the ups and downs of stock market prices.

This is true of both business and market factors. During the recent periods of market weakness the rises in unemployment (550,000 in February) to postwar "peaks" have been prominently featured; overlooking the co-existing relevant fact that in 1949 more people have been at work than last year. Likewise much attention is being directed to the declines since last year in department store sales (7% in the last week of February); without referring to the great increases since prewar which still aggregate 200% in dollar volume and about 40% in units. Also submerged by the disappointment over current unemployment and sales figures in the public's mind during doldrum market periods, is the surprisingly high accrual of personal incomes —at a rate that is higher than last year as well as every other previous year.



A. Wilfred May

Similarly midst the current bear psychology much is made of reported lay-offs of from 300 to 3,000 employees by companies scattered through the railroad, electric appliance and home-furnishing industries; and of price-cutting in oil, metals, textiles, and in various consumer items as television sets. All discernible production cutbacks are being emphasized and reemphasized. On the other hand the discouraged public seemingly does not deem it very important that the Federal Reserve Board's index of industrial production still remains within 2% of its peacetime high record—reflecting very high automobile, utility, steel and food industry activity.

Socialism Up—Market Up in Britain, Down Here

In the fears expressed over the encroachment of socialism during the market's decline following our last November's elections inferences of "quantitative" ruin to business and the stock market have been blandly assumed. In answer thereto we might now point out (as may be later realized by the public) that socialist government and even nationalization, whatever their other abuses, do not eliminate profits. This is graphically shown by a study currently appearing in the "Economist" of London. In the third year of the British Fabianization with its anti-capitalist philosophy, despite the higher tax imposts larger gross operating profits were carried through to show an average increase in net of 13½% over 1947. With the single exception of fuel, all British industries — including utilities — were able to show larger earnings than during the previous 12-months. The writer has little doubt that the universal divergence between collectivism on the one hand and profits and prices on the other, will be realized here during periods of improved market atmosphere.

Market Chameleons

Chameleon-like inference likewise prevails over factors within the market. An example is the varying attitudes toward present increases in earnings over past periods. During the current period of market depression the much lower earnings of most railroads and industrials which occurred during the 1930s are regarded as the norm to or toward which the present "abnormal" profits may return, and which should be importantly considered in justifying the present market's low price-earnings ratios. On the other hand, during bull market times an earnings rise is regarded as an indication that a company has satisfactorily progressed and validating an increase in the market's price-earnings ratio. This is epitomized in the present market's appraisal of the railroads, which is viewing the present enormous income increases over 1935-'39 levels not as a sign that they have turned the corner to a new era, but rather as fortuitous, abnormal, inflated and in any event temporary.

Hopes and Fears of Market Activity

Also in line with our depiction of oscillating market psychology are the expectations of relaxed margin requirements that have been voiced during the last few days of improved market tone.

Incidentally, before any hopes of major change toward really active liquid markets are raised, it should be realized that margin liberality would *not* constitute the key to do the trick. A mere glance at a typical tax and commission bill for the cost of getting in and out of a stock will suffice to show the impossibility of logically treating market participation as a worthwhile opportunity for profit through capital appreciation. In the case of an individual who sells 100 shares of a stock at a price of 50 six months or longer after he has bought it at 40 (assuredly a satisfactory market achievement), from his gross profit of $1,000 are deducted $61 for Stock Exchange commissions; Federal and State taxes plus SEC fee amounting to $10.10; and if his annual taxable income exceeds $21,000, a Federal income tax of $250 (via the 25% capital gains ceiling). This $321.10 total of expense represents a "payment to the kitty" of 32%, surely an impost which it is impossible for winners to bear if and whenever they outguess their fellow speculators. The only way, to circumvent the capital gains tax and to reduce the commission and State and Federal selling taxes is by adding the buying commission as a part of the original cost to serve as the basis for calculating the income yield in permanent holding —a kind of operation reinforcing the illiquid investment rather than the desired "liquidity" phases of the Exchange floor's functioning.

As with other elements, this unfavorable outlook will no doubt be emphasized in the public mind during a return of general pessimism — emphasis whose oscillations are constantly manifested in the successive rises and falls in the price of Exchange memberships.

With Francis I. du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Patrick A. O'Malley has become associated with Francis I. du Pont & Co., 1010 Euclid Avenue. He was formerly with William Robbins & Co. and prior thereto with Hirsch & Co.

Womeldorff & Lindsey Formed in Little Rock

LITTLE ROCK, ARK.—Womeldorff & Lindsey has been formed with offices in the Exchange Building to engage in a securities business. Principals are James E. Womeldorff and Robert P. Lindsey. Mr. Womeldorff was previously an officer of W. R. Stephens Investment Co. and in the past was with the First National Bank of Memphis.

J. E. Womeldorff

COMING EVENTS

In Investment Field

March 11, 1949 (Detroit, Mich.)
Bond Club of Detroit 33rd Annual Dinner in the Crystal Ballroom, Book Cadillac Hotel.

March 11, 1949 (New York City)
Security Traders Association of New York forum on over-counter securities, 4 p.m. at Schwartz's Restaurant, 54 Broad Street.

March 15, 1949 (Cleveland, O.)
Cleveland Security Traders Association Annual Spring Party at the Allerton Hotel.

March 16-17, 1949 (Chicago, Ill.)
Central States Group of IBA Spring Meeting at Drake Hotel.

April 22, 1949 (New York City)
Security Traders Association of New York dinner at the Waldorf-Astoria.

May 14-15 (San Francisco, Calif.)
San Francisco Security Traders Association Annual Outing at Mt. Diablo Country Club.

May 18-21, 1949 (White Sulphur Springs, W. Va.)
Investment Bankers Association Spring Meeting of the Board of Governors at the Greenbrier.

June 4-5, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Summer Party.

June 17, 1949 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Robert J. Moons has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Buhl Bldg.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—Sidney W. French is with Merrill Lynch, Pierce, Fenner & Beane Michigan Trust Co. Bldg.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

In the past week overall industrial output for the country held very close to the level prevailing in the preceding week and was modestly ahead of production in the comparable period of 1948.

For the week ended Feb. 19, continued claims for unemployment insurance rose nearly 3%, while initial claims dropped 5%. The former were 55% above a year ago and for the latter it was the second consecutive week in which they registered declines.

* * *

Employment in General Motors reached a peacetime record level of 380,329 during 1948 and pay rolls totaled $1,283,865,090, a peacetime high exceeded only in two peak war production years, C. E. Wilson, President, and Alfred P. Sloan, Jr., Chairman of the board, disclosed on Wednesday of this week.

The average 380,329 salaried and hourly-rate employees on GM's pay rolls last year compared with an average of 375,689 during 1947, the previous peacetime record. The total GM pay rolls of $1,283,865,090 for 1948 compared with $1,155,338,163 in 1947.

The statement said that last year's record peacetime employment, together with wage and salary increases and a slight increase in the average number of hours worked per week by hourly-rate employees, resulted in a total pay roll exceeded only in the peak war production years 1943 and 1944 when employment was about 20% above 1948.

The average number of GM hourly-rate employees working in the United States last year was 269,056, slighty higher than the 268,479 in 1947. Their average weekly earnings in 1948 were $64.10, compared with $57.86 in 1947. Total hourly-rate pay rolls in the U. S. were $896,777,099 last year, compared with $807,730,919 during 1947.

* * *

In the past week consumer purchases did not vary noticeably from the level of the preceding week. Retail volume dropped slightly below the level of the similar period in 1948 and selectivity continued to be apparent in the shopping activities of many consumers.

There was no appreciable change in the total dollar volume of wholesale orders which was very slightly below that of the comparable week last year. Deliveries were generally more prompt than a year ago, but collections continued to be slower than in the similar week in 1948.

STEEL OPERATIONS SCHEDULED AT 101.4% OF CAPACITY FOR CURRENT WEEK

Steel demand on the mills this week is strong for most products except alloy steel bars and some semifinished steel. At first glance it would appear that this strength is due to fresh or new requirements. But this is not the true picture, states "The Iron Age," national metalworking weekly, in its current review of the steel trade. There is no dearth of steel orders and there is no sign that the steel rate will drop sharply. But there are ample signs that the increased demand on regular steel mills is due to market conditions which trend toward an overall balance in steel demand and supply.

Demand for steel in the industry this week is extra strong because the gray market has vanished and its customers are trying to get their steel needs from regular mill sources; conversion deals are disappearing as fast as customers can make the grade, and finally, the industry has given such good service on shipments recently that users are pushing for deliveries. All of these factors, the trade magaazine observes, spell normal steel activities, the first since the end of the war.

Aiding and abetting the rush towards a regular peacetime steel market is the heavy output of steel. This week the rate is at an all-time high, close to 102% of rated capacity. That means that finished steel will be pouring out soon at a rate unmatched in modern steelmaking history. It also means that steel users will be getting so much steel in the next few months that they will probably have cause to stop, look and check their inventories, "The Iron Age" points out.

At the rate steel is being made and shipped today it looks as if the great day when orders can be placed and shipments be made on schedule may—on many products—come sooner than midyear.

A balanced condition has long been looked for and now that it is almost upon the industry a lot of sales officials are afraid that the momentum of heavy output and a downward trend in overall demand will, together, pull down the steel rate before the end of this year, the above trade authority points out. Such a frame of mind is still only a guess and is a flashback on past performance in steel.

The actions of the steel scrap market this week have been everything but pleasant when viewed as a possible forecast of steel activity, concludes "The Iron Age." Costwise the scrap price decline

(Continued on page 36)

Securities Business Opportunities And the Public Interest

By EDWARD ALLEN PIERCE*
Partner, Merrill Lynch, Pierce, Fenner & Beane

Leading broker maintains market operation directly affects two-thirds of nation's families, and everyone indirectly. Declares security dealers are blind to what is best for themselves and hence also for their customers. Denies lack of latent public demand for securities, stating great sales effort must be made to make it effective. Concludes first job of securities industry is to make country realize what it really is.

The late United States Senator James A. Read, of Mississippi, speaking some years ago at an annual dinner of the Association of Stock Exchange Firms, said something that has remained with me throughout the intervening years. It was not profound but in its implications it spoke volumes.

Edward A. Pierce

Said the Senator: "In my long public life the one thing that has amazed me most is the little that we in this country know about one another."

He might well have added: "And how badly we appraise the extent and quality of our dependence upon one another and how little we cultivate it." And why, I ask you, is this so?

Confucius tells us that the obvious is rarely understood. Perhaps therein lies the answer. Often an unexpected answer is quite revealing. There is the story of the British General who wanted to have done some special work by an expert such as an American W. A. C. A personnel director whom he consulted assured the General that the problem was easy to handle; that his department had all the answers; that intelligence tests would be applied in the General's presence.

Three young women were called in, one by one, and told that several questions would be asked, the key one being "What are 2 and 2?" The first girl answered "2 and 2 are 4." The second girl answered "2 and 2 are 22." The third girl responded "2 and 2 might be 4 and might be 22."

The personnel officer said proudly to the General: "There you have it. The first girl has common sense, the second imagination and the third both common sense and imagination. Which will you take? And the General answered: "I'll take the blonde."

The Senator might well have gone further along the line of his thought by sermonizing a bit, using for his text that verse in Ezekiel reading: "Then I came to them of the captivity of Tel-Abib that dwell by the River of Chebar and I sat where they sat and remained there astonished among them for seven days."

One could sit where the other fellow sits for seven times seven days and still remain astonished—astonished because the other fellow doesn't recognize his material interest in security market affairs and legislation affecting them.

Industrialists Emerging From Trance

It must be confessed that we in the security business—I wish I could justifiably say, profession—are largely to blame for such a situation. No less to blame are bankers and large industrialists. The latter class is beginning to come out of its trance as is evidenced by its growing practice of publicizing corporation operations—with emphasis on stockholder relationship.

The Theme that appeals most is the effect on the pocket book and at long last it's beginning to be played up effectively in some quarters. For instance, many gasoline filling stations all over the country carry on their pumps a sign reading, say "Gas 15 cents, tax 4 cents."

All over the country people have become gas-tax conscious with the result that governmental budget makers are having no "pink tea" in dealing with the related situation. Witness the uprising in New York State which probably, if not certainly, will prevent inclusion of a gas-tax increase in Governor Dewey's budget.

Gasoline is an article which lends itself beautifully to this sort of missionary work because of its widespread use. Moreover, the amount of the tax, being a substantial part of the cost, carries real weight. The cigarette is another product to which these two features apply.

Some years ago, I asked the President of one of the big cigarette manufacturing companies why he, and the other cigarette makers, did not display prominently on each package an inscription calling attention to that part of the cost represented by the tax. His answer was to the effect that the companies feared governmental reprisal.

Tax Consciousness

Now I'm not for a moment holding that we shouldn't be quite willing to pay whatever taxes are necessary to maintain properly a properly run government. On the other hand, everybody ought to be in a position to know what part of his expenses is for tax; also to feel that no more is collected than is necessary.

It's exasperating—it's frustrating, to learn that one branch of our government could mislay 12,000 Army tanks; that it had no record of their whereabouts. It would seem impossible that 12,000 tanks weighing 10, 20 or 30 tons, probably, could be lost as could 12,000 collar buttons; but apparently it isn't. If this were an isolated instance of inefficiency one might view it as something of a joke and let it go at that. Unfortunately it's not isolated—it's quite typical.

How can it be otherwise when some departmental affairs are in the hands of a bright young man like the bird in the War Production Board who wrote the President of the Dow Magnesium Corp. asking what materials were used in the making of magnesium. The President answered "sea water."

Back came a letter asking the President to prepare an estimate as to how long his source of material could be expected to last. The President, whose company's plant is on the Gulf of Mexico, seemed to be of an extraordinarily obliging disposition. At any rate, he actually had his statisticians attempt to figure out about how much water there is in the Gulf. Facetiously he wrote the W.P.B. man as follows:

"Our engineers estimate the supply will last 1,500 years. There is one other factor which might possibly alter or modify this estimate. The figure here given must be revised if it turns out that the Atlantic Ocean drains into the Gulf of Mexico — and we keep hearing rumors that it does."

Government Bureaucracy

Another government employee undertook to make a census of "brass mines" in the country. That which the average 14-year-old school boy could have told him, i.e., that brass is a compound rather than an element, was news to him.

I'm not in the least fearful that Mr. Thorp will take umbrage at anything I've said regarding inefficiency in some quarters in Washington. He probably knows of far more instances than I do; and he probably wriggles as much, when signing his income tax check, as I do when signing mine, in the thought that in part at least he is paying a premium for indefensible practice.

That almost desperate need for a change exists is best attested by the appointment and the work of the so-called Hoover Committee. The bi-partisan character of the committee and the appointment thereunto by a Democratic President, of a Republican ex-President give real promise of real accomplishment. The quality of the membership is such that the country's citizenry is likely to insist that its findings be respected and be put into effect. Public committees, as you know, have a way, in most instances, of coming and going without much to commend their existence. It doesn't do to be too much of a Pollyanna even in the case of the one under discussion; but the least one can say is that it offers far more promise than most.

The direct impact of security market operation on the public if this country probably affects two-thirds of our families; the direct coupled with the indirect, practically everybody. One important segment is so-called labor. Parenthetically, I could wish that there were adopted some word other than "labor" to define the class of employee in this country who does manual work. If the other fellow doesn't "labor" quite as truly as the man at the lathe, I'm a cassowary. As Dorothy Thompson says "We need some new definitions."

If the manual worker were to attempt to analyze a corporation report or balance a clearing house sheet and the other fellow were to try his hand at a forge or a bulldozer each would have a healthier sympathy for the other. I know whereof I speak for I've experimented more than once with both types of operation—not always successfully.

Once upon a time I constructed a half a mile of a logging railroad—my functions ranging all the way from those of surveyor and construction engineer to manipulation of a peavey and a shovel. The result was not what reasonably could be called artistic. The rails had all the undulations of a wash board and the locomotive engineer who made the first outbound trip over the track refused to make the return run.

With the help of a colored brakeman, who knew but little more of a locomotive than I did, I brought the engine back myself

(Continued on page 42)

*Address of Mr. Pierce before Dinner Forum of National Federation of Financial Analysts Societies, New York City, March 8, 1949.

The Background for The Next Bull Market

By JOHN H. LEWIS*
John H. Lewis & Co.

Mr. Lewis maintains stocks of well-managed and financially strong companies should be bought if market declines sharply from impact of rapidly deteriorating business and new war scare. Concludes any processes of inflation will create eventual paper profits on present purchases.

There are at least two important general prerequisites to a broad and extended bull market. The trend toward war must be reversed. There must be a substantial downward readjustment in our current level of commodity prices and business activity. Never in our history has a bull market started after many months of record peacetime business or after a long and sharp advance in commodity prices. Never has a bull market begun in the shadows of an impending World War or amidst the fears thereof.

John H. Lewis

One may reasonably hold the view that war is not imminent. But it should be realized that dictators are prone to live dangerously. Often they misjudge the reaction of their enemies to their own aggressive moves. Russia wants world domination. The Western countries seek a balance of power that will insure peace. At some time these two concepts and strivings will produce conflict if their distinct goals are adhered to stubbornly.

So while one may think that war is not an immediate prospect, the danger of a breach in world peace cannot be ignored. The history of our stock market from the peace settlement at Munich in the fall of 1938 to September, 1939, gives substantial support to the conclusion that a prewar market is a period of wagging confidence characterized by a nervous erratic stock market, but one with a downtrend. Unless war tension diminishes or disappears, a caution will be engendered in the minds of investors which will prevent a bull market of any important scope or duration.

Now I come to the business cycle and the commodity price level. The Federal Reserve Board index of industrial production is currently about 190. This index averaged 183 for the past three calendar years and the average for industrial production during the four years, 1936-1939, as measured by this index, was 103.5. The Cleveland Trust index of business activity, adjusted for the growth of population and the long-term trend of production, was 31.7% above normal last December, at which time it had been above normal for 34 successive months. Not since 1790 had this index recorded such a long-sustained and high level of activity. For the three years ending Dec. 31, 1948, it has averaged 24.2% above normal. As for the wholesale commodity price level as measured by the index of the Bureau of Labor Statistics, it is at about 158.5 against 100 in 1926.

Business activity is only down between 2 and 2½% from its postwar peak. Wholesale commodity prices, measured by the above index, are down 6.4%.

From the peaks of commodity prices (U. S. Bureau of Labor Statistics) after or near the end of World War I, the Civil War and the War of 1812, business activity (Cleveland Trust index) declined respectively 30%, 16% and 16% to the bottoms of those business declines. The corresponding percentage decreases in commodity prices were 40%, 18% and 23%. With some 40 industries having caught up with deferred and current demands, there no longer seems much doubt that our postwar boom is over in so far as it is not stimulated by artificial or extraordinary demands. So here we are riding on top of a wave of physical industrial production. That production is being sold at a wholesale price level some 96% above prewar years. We have sinned economically.

I have never believed that this postwar business and price adjustment period could be accomplished in piecemeal fashion. I do not believe the business decline ahead this year will be limited to 5% or 10%. I can't remember that any business forecaster in the spring of 1937 estimated business would decline 32% within nine months. Once you have climbed to the top of a barren mountain peak, the accuracy of any estimate of just how far down you will tumble, if you fall, is open to question. If war tension is to be with us, and at the same time we have a rather rapid descent in the business and commodity price curves, then a bull market is hardly to be expected in near-by months.

But such a conclusion is too cramped in its viewpoint. Looming up ahead as a stock market factor of possibly dominating importance is the growing inflationary outlook. Within a year we may well see an abandonment of what sound fiscal policies we have left. Inflation, in time, may well becoming a controlling and powerful bullish stimulant in the stock market.

In summarizing, I must say that as long as there is no abatement in the war tension, a big bull market seems unlikely. That conclusion would seem warranted even though there is a substantial decline in business activity and commodity prices, and we also embark again on a program of moderate deficit spending. However, if our stock market declines sharply from the impact of rapidly deteriorating business and a new war scare, then I would think stocks of well-managed and financially strong companies should be bought.

Under those circumstances, the risks of holding good stocks for the long term ought to be sufficiently minimized to warrant commitments. The theory would be not that a bull market is necessarily just ahead, but rather than the processes of inflation in this country would eventually result in, at least, substantial paper profits on such purchases. If our country should be defeated in war or succumb to Communism, it might not matter any way whether we held cash, property or stocks.

*Summary of an address by Mr. Lewis before Luncheon Forum of convention of The National Federation of Financial Analysts Societies, New York City, March 8, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

More than three years ago this correspondent pointed out the naivete of our statesmen and editors generally in being flattered that this country was chosen for the headquarters of the United Nations. We sought to show that Soviet Russia obviously had an ulterior motive in leading the movement at San Francisco to saddle us with the site. But our leaders generally insisted this was very gracious on Soviet Russia's part and afforded additional proof that the nations of the world were now to get together under one roof and preserve the peace.

Carlisle Bargeron

Today, our eyes have been fairly well opened by the arrest of a young woman employe of the Department of Justice and a Russian agent at the United Nations. The commentators and editors, almost in unison, are saying it is pretty evident that Russia wanted the UN located here as a vehicle for getting their secret agents into the country.

This was not the purpose of the Russians that I had primarily in mind. My stated conviction was they wanted to use the UN as a sounding board for their propaganda. Certainly this is what they have done and certainly it has been apparent from the first that preservation of the peace was farthest removed from their mind. It makes no particular difference, however, whether they wanted to use UN for the entry of their secret agents or for propaganda or for both, as is apparently the case, they never had any good intentions and it is a commentary on the gullibility or stupidity with which our foreign affairs have been and are being conducted, that millions of American taxpayers' dollars have already been spent on this colossal boondoggling, and notwithstanding the revelations that have come, there is no indication that the spending is to stop. Work is continuing right along on the grandiose "United Nations City" in New York. We have ceased to pay any attention to this great body of world statesmen and our foreign policy makers have turned definitely to more ambitious ways of "defense," such as hemispherical and international defensive alliances. These are to cost additional billions but if any member of Congress were to suggest that we could perhaps cut down a little on our UN budget, he would be buried under an avalanche of editorial derision.

Senator Walter George asserts that Congress will have to know more about the cost of arming Norway, for example, before it will act favorably upon the so-called North Atlantic Pact. Immediately he is denounced as living in another age.

Yet, just a little analysis of what we are proposing to do in Europe should give plenty of pause. If Russia is the powerful military might that justifies the billions we are today spending on the Military, the mad, and to a large extent, propaganda development of superscientific instruments of death—then it is utterly absurd to think that any arms we may send to Norway can prevent Russia from oversweeping that little country at will. Studying the subject as I have, I do not believe Russia is this powerful in which event the billions we are spending on National Defense is an outrage, except you hear on the quiet in many quarters in Washington that the spending is necessary to maintain our economy.

Russia's "tremendous military might" can be seen in a truer perspective in her relations with Tito. This little bandit seems not to have incurred any danger by his defiance of Stalin.

It doesn't follow, though, from accepting this picture of Russia that our militarizing Norway is just the thing that is needed to secure the situation. Seemingly, it might provoke a desperate move on Stalin's part, when there has been nothing to indicate he will move on Norway unless we do send arms. Of course, if it is in mind to send over a couple of atomic bombs with men to operate them, that is another matter. And it would seem to create an intolerable situation for Stalin. He would have to do something. Bluntly, it is a pity that into the tangled mess in which we have gotten ourselves, we insist upon pulling in other countries. We are apparently not satisfied with having wrecked China with our silver policy back before the war, to say nothing of how we have treated her since. We are now about to move in such a way as to have a tremendous impact upon what has been the prosperous little economy of Norway.

In the increasing critical attitude towards our foreign policy on Capitol Hill, notwithstanding the editorial squelching that greets every piece of outspoken criticism, the ECA is in for a sharp review. Paul Hoffman is "expressing apprehension" that American business interests, "selfish," of course, may insist upon unloading their products on the program and thus defeat its single purpose of bringing about Europe's recovery.

The signs are very plain that there is to be a lot of this pressure, indeed. And somehow, this correspondent can't sympathize with Mr. Hoffman's apprehension. Surely he knows where the real support for the Marshall Program came from. We recall the imposing list of 1,000 which sponsored advertisements in Eastern newspapers declaring the Marshall Plan was conceived in the noblest of humanitarian purposes. It was the darndest conglomeration of humanitarians one ever had the pleasure to see. My guess is that these humanitarians are really going to move in on the Marshall Plan, too, and I can't see any reason why they shouldn't. After all, there ought to be some justification for it.

Walter Koppelman Admits

BALTIMORE, MD.—John Van C. Koppelman has been admitted to partnership by Walter Koppelman, 7 South Street, member of the Baltimore Stock Exchange, and the business will be conducted under the firm name of Walter Koppelman & Co.

Goodbody & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Frank Haage, Jr., is with Goodbody & Co., Penobscot Bldg.

With McCluney Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Fred A. Gissler has been added to the staff of McCluney & Co., 418 Olive Street.

Future Financing of Electric Utilities

By GEORGE D. WOODS*

Chairman, Executive Committee, The First Boston Corporation

Investment banker, predicting funds are abundantly available for financing current expansion of electric utilities, warns considerable portion should be invested in stocks to avoid top heavy debt structure. Stresses importance of rate increases as factor in assuring sale of common stock, and attacks "sealed deadline bidding" procedure as handicapping equity investment. Says hard work by both security dealers and utility concerns will be required to reach thousands of private investors in distribution of common stocks.

At the outset it may be said that there should be no difficulty in financing the current expansion of your industry. There are no insurmountable problems. I am convinced that funds are abundantly available from the savings of the American public. The principal ingredients required to achieve the objective are reasonably intelligent and reasonably understanding cooperation between utility managements, regulatory bodies, and security dealers, plus plain, old-fashioned hard work. There are, however, a few red lights, as well as certain trends which may develop into danger signals, which I would like to discuss.

George D. Woods

It is estimated that the expansion of your industry over the next three years will require a minimum of \$3 to \$3½ billion over and above the funds available to you from so-called internal sources. That is, principally from your reserves and balances available after the payment of dividends.

The largest proportion of this sum will be raised through the sale of debt securities. In my judgment you will find a ready market for all your debt securities. The interest rates which you pay will vary somewhat among the individual companies and the interest rate will be quite low if it is compared with the rates of interest paid during the last period of substantial expansion in your industry in the middle 1920's. Your debt securities will be taken in large part by institutional investors. During the 1920's your bonds and debentures were distributed by security dealers largely to individuals, and the cost of that widespread distribution was considerably greater than the costs which you will pay under present conditions. This is natural and proper inasmuch as not more than perhaps 75 institutions will take upwards of 75% of your debt securities, and the effort expended by the security dealers is therefore very much less than it was when the securities were sold to tens of thousands of investors throughout the country.

The supply of funds which the institutions will have for investment should increase as long as the adoption of pension funds continues to spread. Furthermore, it is evident that a return to price levels of the 1920's is exceedingly remote, and the average individual is forced to carry more life insurance than he did when the purchasing power of the dollar was higher. There are other factors which work in the same direction, but for our purpose at this time it is sufficient to state that your debt financing will cause you no trouble.

A Note of Caution

At this point I would like to inject a note of caution and a word of advice. Because of the ease with which debt securities can be sold, do not be tempted to create the maximum amount of debt which your trust indenture permits. Always have a balance of bondable additions against which no bonds have been issued to take care of the inevitable rainy day when conditions are such that equity financing is not available on any practical terms. Do not be tempted by the combination of low rent for the capital and the fact that this rent, in the form of interest payments, is a deduction for income tax purposes, whereas the rent for your equity capital represented by preferred and common dividends is not only higher but is not deductible for income tax purposes. Keep your debt low and expend your efforts on increasing your equity.

I would like to comment briefly on the convertible debenture vehicle which has been used from time to time as a medium for financing expansion. A convertible debenture is a debt obligation, is defaultable, and is calculated as debt in statistical comparisons until it is converted. If, subsequent to its creation and prior to its conversion into stock, a change should occur—not necessarily in the business of the issuer but in the general economic picture of the country and in the Stock Exchange averages for all utility stocks—the privilege of conversion might become meaningless, and what was felt by a management and its financial adviser to be a temporary step in the direction of distributing common stock could turn out to be a permanent item in the debt column, usually with a relatively short maturity. In my judgment the convertible debenture device for distributing equity securities of electric utilities should be used with extreme care. When used, the conversion price should be very close to or even below the quoted market for the common stock, and the management and its financial adviser should take all appropriate steps to effect conversions reasonably promptly. There are few sound reasons for an electric utility to employ the medium of convertible debentures for raising permanent capital, and I advise you to examine your situation with great care before you adopt it.

The smaller portion of your requirements to finance your expansion programs must come from the sale of preferred and common stock. This is vitally necessary to maintain the integrity of your debt obligations. In fact, my complacency about your ability to market your debt securities in 1949, 1950 and 1951 is predicated on the assumption that you will sell equity securities to investors during these years and sell them in quantity. In my opinion your preferred and common stocks can be sold. However, in this area of equity financing there is a clear red light. It is in this area that real teamwork between management, regulatory bodies, and security dealers is required. To obtain a proper perspective I am going to take a few minutes to review what has happened in the past few years.

In 1946, at the height of the era of refunding operating electric utility company preferred stocks, the dividend yield to the investor on a few preferreds was as low as 3.25%, and for the average good electric utility it was between 3.35% and 3.60%. This return for the investment of capital was of course inadequate. It was artificially low. However, many millions of dollars of your preferred stocks were sold in that period, and as the unnatural situation corrected itself and investors demanded more realistic rates, the market quotations for preferred stocks with the 3.40% to 3.80% dividend rates reflected the change. Many of these preferreds are today quoted in the 80's and the investors, largely institutions, have not as yet recovered from the impact of the depreciation indicated by these quotations. Under present conditions preferred stocks of good operating electric utility companies can be sold with a dividend rate of from 4¼% to 4½%. It has been my personal feeling that as the going rate approaches closer to 5% your preferred stocks will be readily salable in substantial quantity to individuals and miscellaneous institutional investors through the length and breadth of the land. Then, too, at these levels there is always the possibility that the large life insurance companies will again be interested inasmuch as the likelihood that preferred stocks bought at these yields will sell at a discount is not very great.

Advice on Preferred Stocks

At this point I would like to inject a word of advice in connection with your preferred stocks. I do not feel that the large institutions represent the market to which most of you should primarily address yourselves in raising the preferred stock segment of your capital. I do not feel that it is sound from your viewpoint to accede to the universal suggestion of the large life insurance companies that you provide for a sinking fund or a purchase fund in connection with your preferred stocks and thereby achieve a saving of a fraction of 1% in the

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*An address by Mr. Woods before the Westinghouse Electric Corporation Future Power Market Forum, Pittsburgh, Pa., Feb. 17, 1949.

Arguments for a Free Gold Market

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company, New York

Dr. Lawrence attacks our present irredeemable monetary system as alien ideology and threat to individual liberty. Criticizes restrictions of gold trading as set by Treasury and International Monetary Fund, and contends a gold standard without a free market is no more possible than a game of football without a gridiron. Says Treasury purchase of gold is inflationary and sale of bonds by Reserve Banks to offset currency expansion due to gold purchases undermines ability to support government bond market. Concludes orderly world market in gold would eliminate great disparities in regional prices of gold.

The struggle for freedom again dominates the day as it did 175 years ago. History has described a complete cycle. On the offensive are the "liberals" who believe that every social and economic ailment will respond to a simple formula: "Give the government more power." In this struggle the "liberals" have already achieved strategic victories which contain the seeds of ultimate complete tyranny. The most important of these is the control of the purse and the complete mastery of a subtle technique of inflation which gives government—apparently—the power of infinite expenditure. The key to this power is the absence of a free market for gold and the ability, so far unchallenged, to place government securities not absorbed by the open market in the portfolios of our banks.

Jos. Stagg Lawrence

The obliging cooperation of our banks in confirming the ability of the Treasury to issue an infinite amount of IOU's may ultimately prove fatal. Under the pressure of wartime patriotism and the lure of Treasury deposits, banks accumulated Federal obligations until at their peak in December, 1945, they accounted for 73% of their total assets.

This action, justified by the circumstance of war, was in distinct violation of one of the elementary canons of sound banking, namely, that no bank should commit more than a small percentage of its assets to a single borrower. State and Federal law in most instances limits this to 10% of capital funds, with permission under carefully prescribed special circumstances to increase this to 25%.

Although there has been a decline of $27 billion or 26.9% of aggregate assets held in the form of Federal securities since the peak holdings of $101.3 billion, the fact is that most banking institutions still hold the IOU's of a single borrower amounting to several times their total capital funds.

States as Borrowers

Sovereigns have always been notoriously bad debtors and the modern state is no exception to the rule. The standards of integrity which apply to the individual or institutional debtor rarely limit the conduct of the state. The sanction of ordinary morals invariably yields to some real or alleged transcendent public interest. The sovereign debtor knows that he can change the rules at will; that he can block, freeze, refund, or arbitrarily reduce (as the Soviet did at the end of 1947) the principal of the debt. If it is impolitic to resort to such forms of welching or if the sophistry by which it is rationalized is too flagrant, the sovereign can always issue more currency and technically at least meet his obligations.

It is not the purpose of this story to explore the precise hazards which confront the banking system or suggest the methods by which the sovereign can use it in assuring his ability to expand the public debt indefinitely. One eminent savant believes that the present debt can be increased to $4,000 billion without difficulty. The banks might well ponder their position and particularly their freedom should it ever suit the purpose of the state to create such a "net addition to purchasing power."

Power of the Purse

Beyond the rape of the banks which such an expansion of the public debt would entail are more immediate and more sinister threats to freedom. *It is an axiom of sound political theory that the power of the monarch must be limited else the liberty of his subjects will disappear.* The notion that a government may regulate prices, control production, limit and redistribute income, provide full employment, shelter the individual against every conceivable emergency without leaving him a helpless helot in the face of an omnipotent leviathan is a notion that only idiots should propound. Yet these objectives in the aggregate comprise the program of the modern liberal who believes that they may be attained without impairing individual freedom.

The chief instrument by which this glittering Utopia is to be attained is the sovereign's power of the purse, a phrase which embraces the ability to create debt and issue currency. For laudable objectives, i.e., to erect road blocks against communism, to promote world-wide recovery, to raise the living standards of laggard races, to maintain democratic governments in power, to compensate a decline in domestic purchasing power, to shelter vast groups of voters against the impact of depression, sums in billions are appropriated. Their dispersal inflates the importance of bureaucracy, fortifies the position of the chief executive, and facilitates that corruption of the masses which induces them to relinquish their liberties.

Alien Ideology

The restraints which will check an abuse of the currency function are twofold. The first is a clear-cut public disapproval of infinite currency emissions and the second the restoration of the gold standard. This is in no sense a miracle formula. Adequate public education labors against the inroads upon intellectual integrity already achieved by alien ideology. Our schools and colleges are filled with instructors whose basic thinking is an imported product bearing the stamp *Made in England, Made in Nazi Germany,* or *Made in the Kremlin.*

It is suspected that the top technical advisors in the World Fund, the Treasury, and the Federal Reserve Board are Keynesian alumni. Their convictions are further sustained by the knowledge that the theories of money management made plausible by the English are a necessary prop for present power and importance. Thus, principle and self-interest are happily identical.

A New Ally

The case for a free market in gold represents a chink in the armor of these Utopians. For that reason the Fund, the Treasury, and the Federal Reserve Board are fighting the proposal without compromise. Their position to date has been so strong that they have not even designed to state the reasons, real or otherwise, for their opposition. They have recently gained a new ally in the spokesman of the Economists National Committee on Monetary Policy. He has rationalized the position of the anti-gold block in strong language and has aligned himself with the advocates of managed currency in the Fund, the Treasury, and the Federal Reserve Board.

This involves an element of irony because the Economists' National Committee on Monetary Policy has waged a consistent and courageous fight to restore the gold standard. This organization, supported by the donations of businessmen interested in honest currency, now gives aid and comfort to the enemy which it has fought for years by confirming the contention that the country is actually on the gold standard ("a restricted gold bullion standard"), and that a free market for gold would cause the "prices of other goods" and "foreign exchange rates" to "become highly chaotic."[1]

It often happens that men who devote themselves with intense concentration to a single objective develop an obsession which undermines their perspective and makes it difficult for them to view their particular task in the broader context within which that task plays an essential but nevertheless partial role. The return to a gold standard is desirable because it will act as a deterrent to the mighty schemes of universal welfare which actuate the planners.

It is in no sense an absolute brake. It must be regarded rather as an aid to the victim of a bad habit who under proper circumstances might overcome his weakness. The weakness is a propensity for reckless spending. A great psychologist, William James, has advised such a victim to surround himself with circumstances which will enable him to resist temptation. The gold standard is precisely such a circumstance.

What Is a Gold Standard?

Before testing the restraining influence of the gold standard let's define it. A country is on the gold standard when the unit of value is defined as a prescribed quantity of gold of specific fineness. In fact most currencies had their origin in a definite weight of some metal. The pound sterling at the time of the Norman invasion was actually a pound of silver 92.5% fine. The American dollar up to the time of the Roosevelt Administration was defined by statute as 25.8 grains of gold nine-tenths fine.

It is necessary to emphasize the fact that the monetary standard, in order to be gold, must be a specific weight of gold, and that it is this quantity of gold and not some pale, remote claim upon the metal which constitutes the gold standard.

"The first rule of the gold

(Continued on page 32)

*Reprinted from "Empire Trust Letter," published by Empire Trust Co., New York City, March 4, 1949.

1 Walter E. Spahr, "The Question of a Free Gold Market," *Commercial and Financial Chronicle,* Jan. 20, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Bank Stocks—Review of six Detroit banks—M. A. Manley & Co., Buhl Bldg., Detroit 26, Mich.

Dividend Payers — List with profit possibilities—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Fire Insurance Stocks—Leaflet —White & Co., Mississippi Valley Trust Bldg., St. Louis 1, Mo.

Investment Opportunities—Circular—Bennett, Spanier & Co., Inc., 105 South La Salle Street, Chicago 3, Ill.

Natural Gas Pipe Lines—Circular—Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N. Y.

New York City Banks—Breakdowns of government bond portfolios and sources of growth income 1948 on 19 New York City Bank Stocks — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Railroads and America's Future —Reprints of radio address by Ambrose W. Benkert—A. W. Benkert & Co., Inc., 70 Pine Street, New York 5, N. Y.

Speculative Bonds — Memorandum on **Republic Pictures** and **Missouri Pacific**—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Sun Life of Canada Reports to You—Story of the Sun Life Assurance Company of Canada—Sun Life of Canada, Transportation Bldg., Washington, D. C.

Three Necessities — Interesting issues in the Food, Clothing and Shelter industries—Floyd A. Allen & Co., Inc., 650 South Grand Avenue, Los Angeles 14, Calif.

Utilities — Circular — Peter P. McDermott & Co., 14 Wall Street, New York 5, N. Y.

Variety Chain Stores—Review —With specific recommendations —Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Link-Belt Co., Missouri-Kansas-Texas Railroad, Stone & Webster, Inc.** and **Texas Gas Transmission Corp.**

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Amerex Holding Corp.—Analysis—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Bank of America, N. T. & S. A. — Brochure — The First Boston Corp., 100 Broadway, New York 5, N. Y.

Bingham Herbrand Corporation —Circular—Wm. J. Mericka & Co., Inc., 150 Broadway, New York 7; Union Commerce Building, Cleveland 14, Ohio.

Caterpillar Tractor Co.—Survey —Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are surveys of **Republic Natural Gas Co.** and **Skelly Oil Co.** and an analysis of **1949 prospects for Secondary Quality Railroad Bonds.** Leaflets are available on **Barnsdall Oil, Dixie Cup, Electric Power & Light, Emerson Radio, Merck & Co., Parke-Davis, Standard of Indiana** and **Texas Eastern Transmission.**

Continental Casualty Co.—Memorandum—William Blair & Co., 135 South La Salle Street, Chicago 3, Ill.

Also available is a detailed memorandum on **Continental Assurance Co.**

Dominion Bridge Co., Ltd.—Analysis — James Richardson & Sons, 367 Main Street, Winnipeg, Man., and 80 King Street, W., Toronto, Ont., Canada.

El Paso Natural Gas Co.—Circular—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 3, Ill.

Federal Enterprises, Inc.—Kneeland & Co., Board of Trade Bldg., Chicago 4, Ill.

Fernandina Port Authority, Fla. Toll Road Revenue Bonds—Circular—Allen & Co., 30 Broad Street, New York 4, N. Y.

General Foods Corp.—Summary opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

General Mortgage Bank of Palestine, Ltd.—Circular—American Palestine Securities Co., 40 Exchange Place, New York 5, N. Y.

General Public Utilities—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

Illinois Terminal Railroad Co.—Analysis—Newhard, Cook & Co., Fourth and Olive Streets, St. Louis 2, Mo.

Minneapolis Gas Co.—Analysis —William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Munising Wood Products Co.—Analysis—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

National Bank of Tulsa—Circular—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Niagara Hudson Power Corp.—Circular—Ernst & Co., 120 Broadway, New York 5, N. Y.

Noranda Oil Corp.—Complete and up-to-date report—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Northern States Power—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Penick & Ford—Memorandum —A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

RKO Pictures-RKO Theatres—Data—B. L. Taylor III & Co., 120 Broadway, New York 5, N. Y.

Richfield Oil Corp. — Memorandum—C. B. Richard & Co., 60 Beaver Street, New York 4, N. Y.

Southern Union Gas Co.—Circular—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Sport Products, Inc.—Circular —Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Victor Fuel Co. — Descriptive literature—George Birkins Company, 40 Exchange Place, New York 5, N. Y.

Virginia - Carolina Chemical Corp.—Review—Ira Haupt & Co., 111 Broadway, New York 11, N. Y.

Illinois Brevities

Halsey, Stuart & Co. Inc. of Chicago headed three different groups of investment bankers who publicly offered the following utility securities: On Feb. 16, $40,000,000 **Duke Power Co.** first and refunding mortgage bonds, 2⅞% series due 1979, at 101.31% and accrued interest; on Feb. 25, $7,500,-000 **Rockland Light & Power Co.** first mortgage 3⅛% bonds, series C due 1978, at 102¼ and accrued interest; and on March 2, $10,-000,000 **Northern States Power Co. (Wis.)** first mortgage bonds, 3% series due March 1, 1979, at 102¾ and interest.

Included in the group offering of the **Duke Power Co.** bonds were the following Illinois bankers: A. G. Becker & Co. Inc., A. C. Allyn & Co., Inc., The Illinois Co., Dempsey & Co., Mullaney, Wells & Co., Detmer & Co., F. S. Yantis & Co., Inc., Farwell, Chapman & Co., Ketcham & Nongard, Mason, Moran & Co., Alfred O'Gara & Co., Patterson, Copeland & Kendall, Inc., and Robert Showers. The proceeds are being used to pay for construction, etc.

Dempsey & Co., Patterson, Copeland & Kendall, Inc., and F. S. Yantis & Co., Inc., were the only other Illinois investment houses included in the group offering the **Northern States Power Co.** bonds. The proceeds of this issue are also being used to pay for new construction, etc.

* * *

Halsey, Stuart & Co. Inc., as sole underwriter, on Feb. 25 publicly offered $3,000,000 California Electric Power Co. first mortgage bonds, 3% series due 1978, at 100 and accrued interest, and on March 2 an issue of $2,150,000 Worcester Gas Light Co. first mortgage sinking fund 3¼% bonds, series A, due 1969, at 101.47 and accrued interest.

* * *

In addition, Halsey, Stuart & Co. Inc. headed five other groups of underwriters who offered the following equipment trust issues: On Feb. 3, $2,120,000 **Wheeling & Lake Erie Ry.** 2% equipment trust certificates, series R, at prices to yield 1.25% to 2.30%, according to maturity; on Feb. 8, $10,665,000 **Atlantic Coast Line RR.** 2½% equipment trust certificates, series J, at prices to yield 1.45% to 2.80%, according to maturity; on Feb. 11, $3,800,000 **Virginian Ry.** 1⅞% equipment trust certificates, series A, at prices to yield 1.30% to 2.25%, according to maturity; on March 1, $5,150,-000 **Chesapeake & Ohio Ry.** 2⅛% serial equipment trust certificates (second equipment trust of 1949) at prices to yield from 1.35% to 2.40%, according to maturity; and on March 2, $12,300,000 **New York Central RR.** 2⅝% equipment trust certificates (second equipment trust of 1949) at prices to yield from 1.5% to 2.90%, according to maturity.

* * *

Lake Superior District Power Co. has arranged for the sale of $1,000,000 of its first mortgage 3⅛% bonds, series B, at 100.482% to six purchasers through Halsey, Stuart & Co. Inc., the net proceeds to be applied as partial reimbursement of construction expenditures made in 1948 and to provide funds for the further additions and extensions to its property. The power company earned $1.21 per common share in 1948, compared with $3.41 in 1947. Current assets at Dec. 31, 1948, amounted to $1,208,487, against current liabilities of $993,101. In 1948, the company sold the greatest amount of electricity ever sold in its history.

* * *

The Atchison, Topeka & Santa Fe Ry. System reported a 1948 net income of $62,842,771, equal to $23.33 per share of common stock, compared with $47,743,744, or $17.11 per share for 1947, according to F. G. Gurley, President. From an earnings viewpoint, Mr. Gurley described 1948 as a satisfactory year and commented that continuation of the reasonably good business volume and financial results of 1948 would be a healthy indication of improvement in the company's future prospects.

* * *

A. G. Becker & Co. Inc., Bacon, Whipple & Co., Julien Collins & Co., Martin, Burns & Corbett, Inc., Mason, Moran & Co. and Mullaney, Wells & Co. on March 1 participated in the public offering of 219,196 shares of Central Maine Power Co. common stock (par $10) at $15.87½ per share. They also were among the investment bankers who underwrote an additional 67,300 shares of common stock which were offered to the common and 6% preferred stockholders of the utility firm at the same price, the subscription privilege expiring on March 14, 1949. The net proceeds will be used to reduce notes payable to The First National Bank of Boston, the funds of which had been used to pay for construction, etc.

* * *

Sales of International Harvester Co. for the quarter ended Jan. 31, 1949, were the highest in dollar volume of any first quarter in the company's history, according to John L. McCaffrey, President, and Fowler McCormick, Chairman, in a quarterly review to stockholders. Total sales were estimated at $230,000,000, an increase of 23.4% over the corresponding quarter a year ago, but a decline of 9.2% below the quarter ended Oct. 31, 1948. The International Harvester Credit Corp., a wholly owned subsidiary, the organization of which has been approved by the board of directors, is expected to be ready for business by April 26, this year. Its purpose will be to afford supplementary financing of the domestic notes receivable of the parent firm.

* * *

A group of underwriters headed by Eastman, Dillon & Co., of New York, and including, among others, A. G. Becker & Co. Inc., Blunt Ellis & Simmons, Central Republic Co. (Inc.), Julien Collins & Co. and Kebbon, McCormick & Co., all of Chicago, on Feb. 25 publicly offered an issue of $20,-000,000 Beneficial Industrial Loan Corp. 15-year 3¼% sinking fund debentures due Feb. 1, 1964, at 101½% and interest. The net proceeds are to be used to reduce outstanding bank loans maturing over the next several months.

* * *

O. S. Mansell, President of the Celotex Corp., reports net sales of $9,638,790 and net earnings of $455,630 after income tax provisions in the quarter ended Jan. 31, 1949, which compares with sales of $13,671,916 and earnings of $1,791,056 in the corresponding period a year before. After dividend requirements on the preferred stock of $64,215, the latest quarter's earnings were equal to 43 cents per share on 905,472 shares of common stock outstanding, compared with $1.91 per common share on the same basis a year before.

* * *

An issue of 25,000 shares of capital stock (par $2.50) of Sterling Insurance Co., Chicago, is being offered at $12.50 per share for account of certain selling stockholders. Net profit for the 10 months ended Oct. 31, 1948, after provision for Federal income taxes, amounted to $520,345, compared with $513,308 for the full calendar year 1947 and $599,566 for the year 1946. Total admitted assets at Oct. 31, 1948, amounted to $5,904,161, against total liabilities of $1,570,747, not including $1,000,000 represented by 400,-000 outstanding shares of capital stock, a voluntary general contingency reserve of $300,000 and a surplus of $3,033,415. The company is engaged in the personal accident and health insurance field and issues primarily various types of accident and health policies.

* * *

For the quarter ended Jan. 31, 1949, undistributed net income of Television Fund, Inc., Chicago, available for dividends, including net equalization credits, but excluding capital gains or losses on sale of portfolio securities amounted to $17,523, or 13.2 cents per share on the outstanding shares as of that date. Undistributed realized net capital gains on sales of portfolio securities amounted to $328 and unrealized depreciation totaled $245. An initial dividend of 10 cents per share was paid on Feb. 15, such dividend aggregating $14,598. The portfolio as of Jan. 31, 1949, shows total securities with a market value of $681,523, U. S. Treasury obligations of $200,000 and $362,-368 in cash.

* * *

Following the approval on Feb. 23 by the stockholders of Sunbeam Corp., Chicago, of an increase in the authorized common stock from 540,000 shares to 1,030,000 shares, no par value, the directors declared the usual quarterly cash dividend of 50 cents per share, to be payable on March 31, and a 25% stock, to be payable on April 11, both to common stockholders of record March 21, 1949. Scrip certificates will be issued in lieu of fractional shares in payment of such stock dividend. An extra cash distribution was made on Dec. 24, last year, bringing total payments in 1948 to $2.50 per share, against $2 paid in 1947.

* * *

Wilson Brothers, Chicago, reports that consolidated net sales for 1948 amounted to $16,418,447, and net profit, $434,834 after taxes, including $78,102 of non-recurring income. These figures compare with net sales of $16,959,-461 and net profit of $285,181 in 1947. Such earnings, including the non-recurring income, are equal after preferred dividends to $1.05 per share in 1948 on the outstanding 344,593 $1 par common shares, as against 62 cents per common share in 1947.

* * *

Harris, Hall & Co. (Inc.) participated on Feb. 21 in the public offering of $3,000,000 American Box Board Co. 15-year 4½% convertible sinking fund debentures, series A due Jan 15, 1964, at 100 and accrued interest.

* * *

A. C. Allyn & Co., Inc., and Central Republic Co. (Inc.) participated in the underwriting of an offering of 112,486 shares of Southwestern Public Service Co. common stock (par $1) to the latter's stockholders of record Feb. 23, 1949, with subscription rights expiring on March 8, 1949.

* * *

Jewel Tea Co., Inc., Barrington, reports that its retail sales for the four weeks ended Jan. 29, 1949, were up 12.6% over a year ago, amounting to $12,696,246 as compared to $11,273,742 for the 1948 period. For this fiscal year ended Jan. 1, 1949 (52 weeks), total sales and revenues were $153,565,-748, as against $131,204,300 for the 53 weeks ended Jan. 3, 1948, or a gain of 17%. Net income after Federal income taxes amounted to $4,013,355, or $6.66 per common share, for the fiscal year ended Jan. 1, 1949, as compared with $3,381,040, or $5.58 per common share, for the preceding fiscal year. Current assets as at Jan. 1, 1949, were $22,220,484, with current liabilities at $9,996,293.

* * *

Liquid Carbonic Corp., Chicago, on Feb. 15 announced that it had sold privately through Smith, Barney & Co., Laird, Bissell & Meeds, Spencer Trask & Co. and Merrill Lynch, Pierce, Fenner & Beane an issue of $10,000,000 3½% notes due Feb. 15, 1964, at 100½. The notes were placed with two insurance companies and the proceeds will be used by Liquid Carbonic to repay outstanding bank loans and to increase working capital.

* * *

Sales of National Tea Co., Chicago, for the four weeks ended Jan. 29, 1949, amounted to $20,-754,957, which compares with $21,696,091 for the four weeks and two days ended Jan. 31, 1948. There were 659 stores in operation at Jan. 29, 1949, as against 700 a year before. For the year ended Dec. 31, 1948, sales totaled $270,-178,488, the largest volume reported in the company's history, and exceeded the sales for the year 1947 by $52,263,191, or 23.98%.

* * *

Butler Brothers, Chicago, reports consolidated sales for 1948 of $153,428,422, compared with $136,645,169 for 1947, an increase of 12.28%. Consolidated net profit, after Federal income taxes and preferred dividend requirements, amounted to $491,297 for 1948, or 43 cents per common share, as against $829,165, or 73 cents per share, for 1947. Current assets at the close of 1948 amounted to $44,532,719, and current liabilities $9,598,031. The book value of the common stock at Dec. 31, 1948, was $23.61 per share.

* * *

Sales of Wrigley brands of chewing gum for the first two months of 1949 are running slightly higher than the average monthly rate of sales for 1948, according to J. C. Cox, President of Wm. Wrigley Jr. Co., Chicago, which reports net sales for the full year of 1948 of $61,-440,166, against $50,186,953 for 1947. Net earnings per share amounted to $5.82 for 1948, compared with $4.31 for 1947.

* * *

Club Aluminum Products Co., Chicago, reports a net profit for the six months ended Dec. 31, 1948 (first half of current fiscal year) of $189,487, or 58 cents per share after providing for Federal income taxes, compared with $291,994, or 90 cents per share, for the corresponding period of the preceding year. Sales for the half-year amounted to $5,996,998, compared with $6,117,653 for the six months ended Dec. 31, 1948.

Wages

By ROGER W. BABSON

Noting recent decline in living costs, Mr. Babson holds new wage demands by labor unions may lead to less employment. Says labor in demanding higher wages is not fighting management, but the public, and predicts next panic will be due to overreaching of labor and collapse of present union leadership.

The cost of living is definitely declining. This especially applies to food supplies, but is also shown by the mark-down sales of clothing, underwear, shoes and other things. Cars of various makes can now be secured with immediate delivery; and it is estimated that before the year is over one may buy any car "off the floor" with the possible exception of a Chevrolet or Ford. The price of new houses has begun to decline. If your family is not getting their things cheaper it is because they are not shopping around as they should.


Roger W. Babson

The difficulty in the wage situation is that many labor leaders feel that in order to hold their jobs they must get for their members a little more wage increase every year. Of course they know that this cannot go on forever. They should know that they will hold their jobs better in the end by not asking for an increase in wages than by experiencing a bust.

Attitude of Big Companies

Certain industries are still in a seller's market—that is to say, they can dictate the price. This especially applies to the building industry, the steel industry, and a certain portion of the automobile industry. This means that if they grant an increased wage to labor, they can pass this along to us consumers by merely raising the prices. Therefore, if any of the labor unions in these industries strike for more wages, and the government backs labor up, the companies will accept the recommendations. They, however, will plainly state that this will be added to the price of goods and passed along to us consumers. This is an entirely new attitude. It may cause labor to now take all they can while the going is good or it may bring them to their senses.

Of course, this policy is hard on industries which cannot pass along any increased wages to consumers. I have in mind the clothing industry, the shoe industry, and manufacturers of refrigerators, vacuum cleaners, and radios who dare not add anything more to their prices. Hence, they must fight any further wage rises or depend upon new labor-saving machinery which is now being installed. Manufacturers ordered such machinery two or more years ago when they anticipated labor's demands, but it is just beginning to be delivered.

Employment Outlook

Statistics show that employment is gradually falling off. This, of course, is an important factor in connection with wages. When an idle man is standing behind an employed man waiting for his job, two things happen. First, the employed man works harder and does a better day's work; and secondly, he is not going to ask for any wage increase. People are spending less money due to the fact that they have been using up their war savings. This causes less demand for goods, which in turn, causes employers to lay off more help. Then the purchasing is still less. Hence, the vicious circle which has been spiraling upward for the past few years will now begin to spiral down just as rapidly.

One thing I wish to emphasize here is that wage conflicts are not conflicts between labor and management. Management is merely a go-between, that is, it is a negotiator between labor and consumers. Labor is not fighting management, but rather is fighting the public. Even when labor leaders criticize the dividends which are being declared by management, it should be remembered that these dividends do not go to management; they merely make out checks to send to life insurance companies, savings banks, and small investors all over the country.

The Next Depression

The Panic of 1873 was due to overreaching by the railroad barons of that day; the Panic of 1893 to the overextension of Western farm loans; the Panic of 1913 to the overexpansion of industrial trusts; and the Panic of 1933 to the collapse of our banking system following the stock market break of 1929. The next panic will be due to the overreaching of labor and a collapse of the present union leadership.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Newell B. Whitcomb retired from partnership in Dobbs & Co. Feb. 24.

Interest of the late Paul C. Andersen in Cyrus J. Lawrence & Sons ceased Feb. 28.

Paul M. Schoessling With Stone & Webster

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Paul M. Schoessling has become associated with Stone & Webster Securities Corporation, 33 South Clark Street. Mr. Schoessling was previously with Blair & Co., Inc. and prior thereto was manager of the municipal bond department for Sutton & Co. In the past he was with H. C. Speer & Sons Co., Doyle, O'Connor & Co., and Otis & Co.

Shelby McDaniel Opens Office in Dallas

(Special to THE FINANCIAL CHRONICLE)

DALLAS TEXAS—Shelby McDaniel is engaging in the securities business from offices at 3504 Princeton. He was formerly with Dallas Rupe & Sons in the municipal bond department.

Joins E. F. Hutton Co.

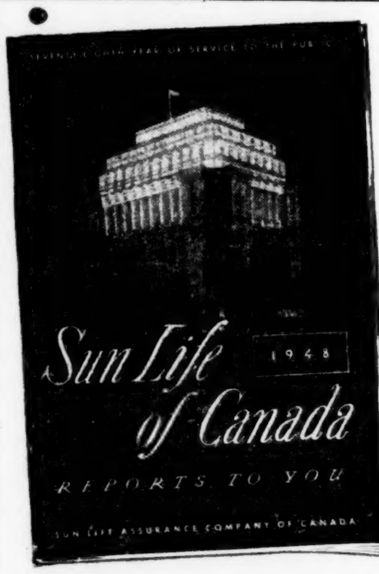
(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Howard W. Heintz has become affiliated with E. F. Hutton & Co., 623 South Spring Street. He was formerly with Pacific Company of California.

With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Albert E. Peacock has become associated with C. E. Abbett & Co., 3277 Wilshire Blvd. He was previously with Dean Witter & Co.



Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The annual reports of insurance companies now being issued bear out the favorable expectations of a few months ago. In a number of instances, the most profitable year in history has been recorded. Other companies have reported sharp improvement in underwriting operations compared with the results of recent years. Practically all have shown gains in investment earnings.

One of the most detailed and interesting reports is that just released by the Insurance Company of North America. In contrast to some concerns which published only a limited amount of information, this report has explained in 40 pages through graphs, pictures, words and statistics, the operations of the company including the various departments and subsidiaries.

Such a report as this undoubtedly enables the stockholder as well as the public and employees who come in contact with it, to obtain a better understanding of the business and operations of the company.

The President's letter introducing the report comments on the significant developments during the year. He points out among other things that "every major department had satisfactory loss and expense ratios last year." In the case of the fire companies the overall loss ratio declined from 61.4% in 1947 to 51.1% in 1948. For the indemnity company the loss ratio improved from 64.96% in 1947 to 59.2% last year.

The combined operations of the company for the past two years are summarized in the following tabulation:

Underwriting—	1948	1947	Increase or (—) Decrease
Premiums written	$158,940,048	$139,781,992	$19,158,057
Increase in unearned premium reserve	16,660,201	27,669,103	—11,008,901
Premiums earned	$142,279,847	$112,112,889	$30,166,958
Claims and claims expense incurred	76,150,859	70,036,284	6,114,575
Expenses and taxes incurred	59,480,934	50,889,200	8,591,735
Total claims and expenses incurred	$135,631,793	$120,925,484	$14,706,310
Statutory underwriting profit or loss	$6,648,054	—$8,812,595	$15,460,649
Financial—			
Int., div. and rents earned	10,437,774	9,176,006	1,261,769
Profit on securities sold	9,449	152,061	—142,612
Investment income	$10,447,223	$9,328,067	$1,119,157
Gross operating income	$17,095,277	$515,472	$16,579,805
Federal income tax accrued	3,833,240	132,300	3,700,940
Net operating income	$13,262,037	$383,172	$12,878,865

Premium volume continued to increase during the year but at a much slower rate than in 1946 and 1947. For the year 1948 the gain in premium amounted to 13.7% as compared with approximately 38% in the previous year.

As a result of the substantial increase in premium volume during 1947 and 1946, premiums earned in 1948 showed a greater gain than premiums written, and because of a more favorable loss experience underwriting operations improved. After several years of statutory underwriting losses, operations were again profitable.

Investment results reflected the larger volume of funds available for investment as well as increased yields and more liberal dividends. Consequently investment income for the year was higher by almost 12%.

One of the most interesting facts brought out in the report from the standpoint of investment operations was use of new funds. Of $35,615,000 in new funds available for investment, the company purchased $20,613,000 of U. S. Governments, $3,164,000 State and municipal bonds, $602,000 Canadian Government internal bonds and $110,000 in other foreign bonds. This policy was necessary because of the further gains in premium volume.

Not considering some switches in preferred holdings for tax reasons, new purchases in the amount of $2,513,000 were made. These additions were concentrated primarily in the public utility field.

Concerning common stocks, new commitments amounted to $8,692,000. Public utility companies accounted for 26% of the total, the petroleum industry for 37% and the remaining 37% was invested in bank stocks and miscellaneous industrials.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York, Inc., is sponsoring a forum on "A New Price Index for the Oldest Securities Market," to be held at Schwartz's Restaurant on March 11 at 4 p.m. Speakers will be L. E. Walker, President of the National Quotation Bureau, and R. Victor Mosley of Stroud & Company, Philadelphia, past President of the National Security Traders Association.

This forum is the first of a series which the Association intends to bring to its members.

Time Running Out On Bear Market

By GLENN G. MUNN*

Paine, Webber, Jackson & Curtis

Citing three-year lapse of time since stock market peak, market analyst holds government intervention will ward off usual down-cycle. Expects intermediate upward market movement of 10% in averages, and ranging from 30% to 40% in specific issues, to occur sometime this year.

In "pegging" long-term Governments just above par, the Treasury has supplied the most important of the various "cushions" supporting the economy. But the Treasury holds no monopoly on "pegs" in the financial structure. The market for prime industrial shares has also been "pegged" for 30 months. That "peg," for the Dow index, has held just above 160. However, this has been an automatic "peg," determined by the free play of market forces; not controlled by a single, powerful buyer.

Glenn G. Munn

Here we are three years distant from the stock market peak. The elapsed time from the peak is already sufficient to comprehend the orbit of all stock market cycles from crest to trough. The entire 1919-1921 down cycle was contained in a 21-month interval. The 1929-32 debacle from top to bottom was a 34-month affair. Time is running out on this stock market cycle if past history counts.

That business may be in a slow-motion roll-over into an old-fashioned, spiralling, chain-reaction decline, involving each segment of the economy, is entirely possible. That would be the pattern of the past. It would be history. If so, a new equilibrium in supply and demand, and between prices and costs could hardly be expected to be reached short of another year or 15 months. But again the background has changed. We are in the Treasury and K-K cycle. That is, the Treasury-Keynesian-Keyserling cycle. That means government intervention—cheating the silly down-cycle from its accustomed brutal innings.

Some of the conservative diehards may be pardoned if skeptical that this trick can be successfully performed. As yet, history has produced no perfect demonstration. Nevertheless, few will quarrel with the idea that the anti-deflation intent is there; that the government will intervene at some juncture; that no entity is more injured by deflation than the government itself. What matters is when and in what manner it intervenes.

Of the two theses (a) that the economy is confronted with an imminent orthodox, encompassing down-cycle, or (b) a leveling off readjustment by way of transition into a new period of prosperity to begin in the early 1950s—the latter appears more probable.

The overwhelming majority of low-grade and medium-grade stocks have already exacted from their holders the full penalty of all but the severest cyclical downswings, say within an approximate 10-15% margin of error.

Prime quality stocks may undergo a trans-cyclical passage into the next up-cycle without breaking the low of the trading band persisting throughout the past 30 months. The next two months should prove whether or not this is to be the case.

On the other hand, unless Congress provides far-reaching changes in the tax laws favorable to equity capital and its formation, and particularly as respects double taxation and capital gains, or unless there is a renewal of deficit financing on a considerable scale, or a marked reduction in margin requirements, it is unlikely that the 1946-1948 stock peaks will be exceeded in either 1949 or 1950.

At least one intermediate upward movement equal to 10% in the averages, but ranging to as much as 30% to 40% in specific issues, will occur in 1949, presumably starting from whatever low is established in the spring months.

*Summary of an address by Mr. Munn before Luncheon Forum of Convention of Financial Analysts Societies, New York City, March 8, 1949.

Connecticut Light & Power Co. Financing Plan Successful—Underwriters Sell Debs.

Putnam & Co., Chas. W. Scranton & Co., and Estabrook & Co., managers of the underwriting group, announce that The Connecticut Light & Power Co. warrant holders subscribed for $2,433,750 of common stock and $5,340,800 of 3% convertible debentures, due Jan. 1, 1959, leaving $382,100 unsubscribed debentures to be taken up by the underwriters. All of the unsubscribed debentures have been placed privately and no offering will be made to the general public.

The common stockholders of record Feb. 15 were offered the right to purchase either one share of common stock (no par) at $50 per share for each eight shares held, or $50 principal amount of 3% convertible debentures, due Jan. 1, 1959, for cash at 100% for each eight shares held. Rights expired at 3 p.m. (EST) March 4.

Mr. C. L. Campbell, Chairman of the Board, expressed his gratification for the success of The Connecticut Light & Power Co.'s offering to common stockholders of common stock or debentures.

The offering, sometimes referred to in investment circles as the CL&P plan, was unique in that it gave the common stockholders the alternative right to subscribe either to common stock or debentures. In effect the stockholders determined the amount of debt which would temporarily be senior to their equity, which debt is convertible into common stock at any time.

A total of 48,675 shares of common stock at $50 per share was purchased from the company by 7,724 subscribers for $2,433,750 and 265 subscribers purchased $5,340,800 worth of debentures. More than 95% of the offering was subscribed for. The unsubscribed balance, amounting to $382,100 has been purchased from the company by the underwriters and has been sold by them.

This offering provided the company with approximately $8,000,000. An additional estimated $24,000,000 of new money will be required to carry out the company's construction program scheduled through 1951.

McNair Explains Mutual Fund Sales Methods

As Reported by DOUGLAS K. PORTEOUS

Leading Fund sales manager holds member firms should educate public away from trading accounts into investment-type operations. Reports his firm taking advantage of general wealth redistribution by selling funds to obscure segments of public.

The methods of salesmanship employed by Courts & Co., members of the New York Stock Exchange, were lucidly explained by Mr. Howard S. McNair last Tuesday evening at the New York Institute of Finance. The occasion was the fourth lecture in a series on Retail Salesmanship of Mutual Investment Funds.

Howard S. McNair

The announcement that this member firm is responsible for approximately 1% of all the retail sales of Mutual Funds in the nation gave added weight to this lecture. Registered representatives in the home office and branches alike are active in offering the funds of five sponsors.

Mr. McNair stated that a surprisingly large number of customer accounts are unprofitable in practically all firms. He related that sometime ago a number of registered representatives, beginning after the markets' close, decided figuratively to forget their trading accounts and devote the remainder of the day to calling attention to Investment Securities, principally Mutual Funds. This procedure resulted in the startling realization that many people were under the impression that the member house was interested in nothing but trading accounts. Friends and customers were doing their investment business, including Mutual Fund purchases, through other investment firms.

This campaign included the highlighting of one particular security, Republic Steel common stock, because the "average American" is item-minded. The registered representatives pointed out that an investor could obtain participation in Republic Steel through purchasing a Mutual Fund and obtain broad diversification in addition to continuous supervision. This realistic campaign brought substantial commissions.

Broadening Prospect Lists

It was suggested that salesmen in the business were inclined to waste too much time on too few prospects and that unlike the Royal Air Force "never have so many (salesmen) given so much (time) to so few (prospects)." Instead of finding 25 or 30 congenial souls who are easy to talk with, it was suggested that salesmen emulate the life insurance salesmen in broadening their lists. Persistency is a virtue, but it becomes an absurdity when too frequent calls are made on a small group.

Courts & Co. have recently underwritten stock issues on the Interstate Telephone Co. and the General Parts Company. One enterprising salesman made personal calls on executives in the communication field in the attempt to obtain customers for the telephone issue. Although he was courteously received by capable executives in well appointed offices, he made no sales.

The same salesman developed a campaign to sell the General Parts issue to garages with surprisingly good results, obtaining many customers for reasonably large dollar amounts. In one case a garage owner made a $5,000 purchase; one of the employees, a grease monkey, asked to be included on a $2,000 purchase. The salesman's campaign among the garage owners and grease monkeys has taught the entire Courts & Co. organization that the redistribution of wealth has already become a reality and that sales approaches made to the apparently obscure will pay off in dollar and cents' commissions.

Mr. McNair stated his sales policies on Mutual Funds are emphasizing approaches to the middle income bracket prospects; the relatively obscure people, the "average American."

With Prugh, Combest, Land

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Leo A. McQueeny, Jr., is with Prugh, Combest & Land, Inc., 1016 Baltimore Avenue.

With White & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Theodore L. Schiermeier has been added to the staff of White & Co., Mississippi Valley Trust Bldg., members of the St. Louis Stock Exchange.

Halsey, Stuart Group Offers M.-K.-T. Equips.

A group headed by Halsey, Stuart & Co. Inc. won the award yesterday March 8 of $2,550,000 Missouri-Kansas-Texas equipment trust, second series 1949, 2½% equipment trust certificates, maturing $85,000 semi-annually Oct. 1, 1949, to April 1, 1964, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.40% to 2.875%, according to maturity.

Proceeds of the issue will be used to provide for not more than 80% of the cost, estimated at $3,328,035, of new standard-gauge railroad equipment consisting of 500 Hopper Cars and two 4,000 h.p. Diesel-electric Passenger Locomotives.

Other members of the offering group were R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Otis & Co.; and Freeman & Co.

With Dayton Bond Corp.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO — George L. Houck is now with Dayton Bond Corp., Third National Bldg.

With J. A. Hogle & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Harry V. Popeney has been added to the staff of J. A. Hogle & Co., 507 West Sixth Street.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a dinner at the Hotel Pierre on March 3, N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York**, inaugurated the observance of the 125th anniversary of the founding of the bank. In his address, Mr. Jackson outlined some of the history of the bank and its relation to the developments in the growth of the city and the nation. The founding of the bank on April 1, 1824 came through legislative amendment to the charter of the New York Chemical Manufacturing Company which had been founded the previous year, allowing the company to do a general banking business. By 1844, when the Manufacturing Company's 21 year charter expired, a full banking charter had been procured to continue the banking business and the chemical business was liquidated.

Mr. Jackson pointed out that the nickname of "Old Bullion" by which this institution has been known for a great many years, is ascribed to the historical reports that the Chemical Bank was the only bank on record in the country which paid out gold continuously during the height of the panic of 1857. The bank joined the New York Clearing House Association as a charter member when it was formed in 1853 and when the National banking system was created, it took out its charter as the Chemical National Bank in 1865. In 1914 it became a member of the Federal Reserve System and continued as a national bank until 1929, when it reverted to its original status as a State chartered institution, changing its corporate title to the Chemical Bank & Trust Company and retaining its membership in the Federal Reserve System. Mr. Jackson mentioned that the initial capital funds of the bank were $500,000 of which $100,000 was required by law to be devoted to the chemical business. The capitalization has grown to over $110,000,000 and the Chemical ranks as the ninth largest of the nation's banks with total resources of over $1,500,000,000.

* * *

Manufacturers Trust Company of New York announces that John J. O'Neill of the bank's office at Fifth Avenue and 43rd Street has been promoted to Assistant Vice-President. Mr. O'Neill began his banking career as a messenger with the National Bank of Commerce in New York. In 1920 he joined the Chatham Phenix National Bank & Trust Company which was later merged with Manufacturers Trust Company. He was appointed Assistant Secretary in 1940 and has been at the Fifth Avenue Office since 1941.

* * *

The New York Agency of the **Swiss Bank Corp.** has received notice that at the 77th annual meeting of shareholders at **Basle, Switzerland**, approval was given to distribution of a dividend of [illegible] for 1948, the same as in 1947. The meeting also decided to allocate 500,000 swiss francs to the pension fund of the staff and 1,000,000 swiss francs to the reserve for new buildings, to allocate 8,000,000 swiss francs to a special reserve and to carry forward 1,181,565.59 swiss francs. Jacques Wavre, Solicitor and Notary Public, of Neuchatel was elected to the board of directors. The following directors were re-elected for a further period of six years: Dr. Max Staehelin; Louis Vaucher; Maurice Golay, Fritz Baumgartner, and Ernest Homberger. Dr. Werner Scherrer, of Basle, was appointed a new member of the Board of Control to replace C. Steuer-Gutzwiller, who has retired. The following members were confirmed in their office for a further period of three years: Wilhelm Christ-Legler; Henri Chenaud; Marc D'Espine; Walter Gemuseus; Werner Graf; Curt Schaefle, and Dr. Hans Schuler. The bank's net profits for 1948 were 20,585,487.84 swiss francs, including carryover, compared with 16,223,851.81 swiss francs for 1947. Total assets as of Dec. 31, 1948 amounted to 2,516,080,657 swiss francs against 2,306,046,947 swiss francs for 1947.

* * *

J. C. Boehm, Assistant Vice-President of the **Manufacturers Trust Co. of New York**, has made available the first annual report made by Wilfred Wottrich to participants in the company's Correspondent Bank Group Life Insurance Plan. This insurance, it is noted, is placed through the Metropolitan Life Insurance Co. and the Equitable Life Assurance Society. The report covers the year ended Nov. 30, 1948; it shows $69,382 received from the Employer Banks for the payment of premiums, less disbursements for premium of $68,687; the balance on hand of $695.12 represents the first month's premium paid by banks newly admitted to the plan, whose insurance became effective only after the close of the fiscal year. It is noted in the report "that the dividend account reports the receipt of dividends of $9,952.66, and that all of that sum, undiminished by any charges whatsoever, has been distributed by us to the employer banks. We are pleased to enclose herewith our check for your share of those dividends." It is likewise indicated that at the end of "this first fiscal year there were 213 participating banks, and that 1,898 of their employees were insured for over $5,500,000." It is noted further "that during the year 14 death claims were filed with us. The beneficiaries under those insurance policies received a total of $43,500, a timely realization of the benefits of this plan which might not otherwise have been available."

* * *

Staff members of the International Division of **Colonial Trust Co. of New York**, who since December have been organizing a "geographical desk" system, are competing for a prize of a summer vacation trip to Canada, it is announced by Arthur S. Kleeman, President. The prize, which consists of a 7-day all-expense trip to Montreal and Quebec for the winner and a member of his family, is being offered to the International Division staff member who prepares the best portfolio on the geographical area to which he is assigned. Under the "geographical desk" system, the map of the world has been divided into a number of geographical areas, with an experienced member of the International Division in charge of the "desk" for each unit, responsible for maintaining up-to-date files of economic and trade information on that area. "The purpose of the 'geographical desk' system," Mr. Kleeman said, "is two-fold: to implement our program of intimate banking for international trade by developing a staff capable of giving intelligent and accurate information regarding the commerce or exchange of any country, and to give to each member of the staff an opportunity to improve his own position by rendering more valuable services to the bank's clients.

"The portfolios will be judged by a board composed of authorities in the field of international trade: W. S. Swingle, Executive Vice-President of the National Foreign Trade Council; E. F. Sitterley, publisher of "World's Business and Guia," and Robert H. Johnston, President and publisher of "American Exporter."

* * *

According to the Philadelphia "Inquirer" of Feb. 28 a letter to the stockholders of **Tioga National Bank & Trust Co. of Philadelphia** by Wesley S. Smith, President, revealed agreement for sale of institution to the **Second National Bank** of that city will result in them receiving at least $40 a share for their stock. Plans for the purchase of the assets of Tioga National by the Second National were noted in our issue of Feb. 17, page 770. The Second National will at the same time assume the deposit liabilities of the Tioga National.

* * *

The Board of Directors of **Land Title Bank and Trust Company of Philadelphia** has declared a regular quarterly dividend of 50 cents per share payable March 31, 1949 to stockholders of record as of the close of business March 21. Land Title Bank, it is announced, has thus changed the former dividend rate of 40 cents a share quarterly, with an extra dividend of the same amount at the year-end to quarterly dividends at the rate of $2.00 per share per annum.

* * *

The **National Bank of America, in Pittsburgh, Pa.**, will become a branch of the **Commonwealth Trust Co. of Pittsburgh** in the event of the approval of a plan for the liquidation of the bank by its stockholders on March 18. Reporting this in its issue of March 3, the Pittsburgh "Post Gazette" said that under a plan approved by directors of the bank, all assets will be sold to the Commonwealth Trust and the latter will assume the deposit liabilities. It is added that the executive officers and employees of the National Bank of America will be retained by the Commonwealth Trust in the operation of the proposed branch bank. It is estimated that liquidation of the National Bank of America will give stockholders at least $42 per share net after taxes.

* * *

George P. Edmonds, President of the **Wilmington Trust Co. of Wilmington, Del.**, and Hughes Spalding, Atlanta attorney, were elected to succeed the late Elwyn Evans of Wilmington and the late John N. Goddard of Atlanta as directors of Coca-Cola International Corp., at the annual meeting of the latter on March 5. The remaining members of the board of the corporation were re-elected by the stockholders; and all officers of the corporation were re-elected at a board meeting following the stockholders meeting.

* * *

The board of directors of **The Liberty Trust Co. of Cumberland, Md.**, announces the following elections: Thomas L. Keech, Vice-President and Treasurer (formerly Treasurer and Assistant Trust Officer); G. Morgan Smith, Assistant Vice-President; Walter A. Fraley, Jr., Assistant Treasurer (formerly Assistant Secretary); Hugh D. Shires and R. William Holt, Assistant Secretaries.

A reference to the merger of the **Peoples Bank of Cumberland** and the Liberty Trust under the name of the latter appeared in our issue of Jan. 13, page 172.

* * *

A plan to consolidate the assets and facilities of the **National Bank of Washington** and the **National Metropolitan Bank**, both of **Washington, D. C.**, under the name of the latter has been approved by the directors of both institutions, it was indicated in the Washington "Post" of Feb. 27, by Alex G. Henderson, "Post" reporter. The account from which we quote, said in part:

"The transaction is not a merger in the ordinary sense as the stockholders of the National Bank of Washington will receive $270 a share for their stock, if the deal is approved, instead of an exchange of their holdings for stock in the enlarged bank.

"The National Metropolitan Bank reported total assets of $54,904,404 as of Dec. 31, 1948, and the National Bank of Washington at that time had total assets of $24,919,285 which would amount to $83,823,639 if consolidated. As a matter of local history the combination is interesting because it would consolidate the two oldest banks in Washington. The National Bank of Washington was founded in 1809 and the National Metropolitan Bank opened its doors five years later. All officers and employees of the National Bank of Washington would become officers and employees of the National Metropolitan under the proposal. C. F. Jacobsen is the President of the National Metropolitan Bank. J. Frank White is President of the National Bank of Washington. The capital stock of the National Bank of Washington amounts to 10,500 shares of $100 par value and the capital funds as of Dec. 31, 1948, totaled $2,264,083, giving the stock a book value then of approximately $216 a share."

* * *

With an announced capitalization of $2,000,000 and a roster of 500 stockholders the newly organized **City Bank of Detroit, Mich.**, had its initial opening in the Penobscot Building on March 1. Ceremonies, in which Joseph F. Verhelle, President, and fellow executives paid tribute to the late Dr. Fred T. Murphy, given place as leader of the bank's organizing group, marked the bank's opening, according to Kenneth A. Thompson, financial writer of the Detroit "Free Press." From the further advices in the March 2 issue of that paper we quote the following:

"State charter of the bank was

(Continued on page 15)

Detroit Bowlers In Close Race

DETROIT, MICH.—As the Detroit Brokers' Bowling League nears the end of its 1948-49 season, competition has become exceptionally spirited for the "Michigan Investor Trophy," awarded annually to the winning team. With eight weeks of bowling remaining, Wm. C. Roney (Red) and their friendly office rivals, Wm. C. Roney & Co. (Blue) are deadlocked for the lead. Both McDonald, Moore & Co. and Andrew C. Reid & Co. are pushing the leaders in what appears to be a red-hot, four-way, stretch duel. Well down the list and apparently out of the running is the First of Michigan Corp., last year's winner. League officers are: President, Charles Bechtel, Watling, Lerchen & Co.; Vice-President, Ross Sutherland, Cray, McFaun & Co., Secretary, Hayden Brown, Wm. C. Roney & Co.; and Treasurer, Richard Carman, M. A. Manley & Co.

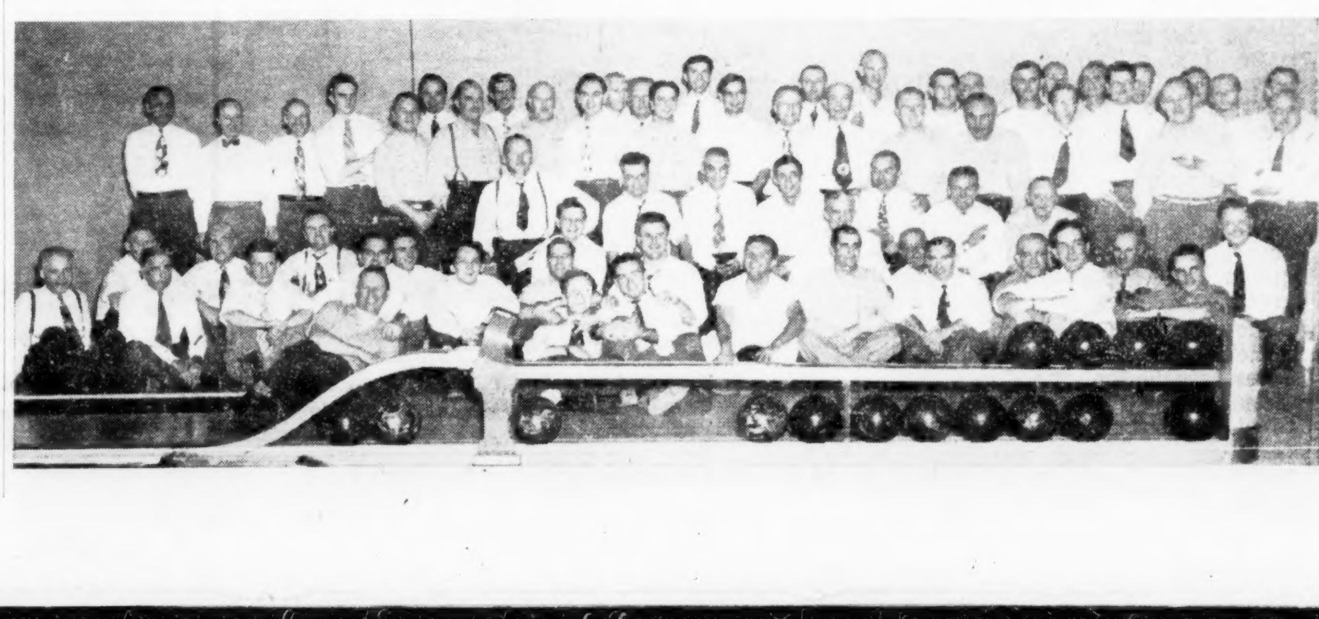
Each year bowling assumes an important roll in the activities schedule of Griswold Street investment dealers, with the League being sponsored by the Securities Traders' Association of Detroit & Michigan. Recently a Detroit team won the Inter-City Security Dealers' Bowling Tournament, held at Chicago. Winning team members were: Ed. Miller, Andrew C. Reid & Co.; Don Miller, Titus, Miller & Co.; Elwood Pierson, Moreland & Co.; Nick Allman, Geo. A. McDowell & Co.; and Charles Bechtel, Watling, Lerchen & Co.

League standing are as follows:

	—Games— Won	Lost	No. of Points
Wm. C. Roney & Co.:			
(Red)	47	25	62
(Blue)	45	27	62
McDonald-Moore & Co.	45	27	60
Andrew C. Reid & Co.	39	33	57
Paine, Webber, Jackson & Curtis	37	35	49
Chas. E. Bailey & Co.	35	37	48
Goodbody & Co.	34	38	46
First of Michigan Corp.	35	37	45
Crouse & Co.	32	40	42
Geo. A. McDowell & Co.	32	40	42
Chas A. Parcells & Co.	31	41	42
Cray, McFawn & Co.	32	40	39
Smith, Hague & Co.	30	42	39
Detroit Stock Exchange	29	43	38

HIGH SCORES

Team High, one game: First of Michigan Corp.	942
Team High, three games: McDonald Moore & Co.	2,591
Individual High, one game: Kuhnlein—Goodbody & Co.	255
Individual High, three games: Wallace—Wm. C. Roney & Co.	631



News About Banks and Bankers

(Continued from page 14)

handed officers by Maurice T. Eveland, State Banking Commissioner and Emissary of Gov. Williams. Federal Reserve charter was dated Saturday [Feb. 26]."

Recent references to the new bank appeared in these columns Dec. 2, page 2299, and March 3, page 972.

* * *

The Anglo Twenty-Year Club, composed of members of the staff of the **Anglo California National Bank of San Francisco**, who have served the bank for 20 years or more, held its annual dinner at the Palace Hotel on Feb. 21, with 165 members present. Following the dinner and a program of entertainment, Allard A. Calkins, President of the bank, presented pins to 21 new members and special pins to 15 members who have reached the 25-year class, ten to those who have served 30 years, and three to members who have been with the bank for 40 years. The club now has a total membership of 198.

* * *

The **United States National Bank of Portland, Ore.**, has purchased the **First National Bank of Sheridan, Ore.**, and has taken over the institution as the 38th branch in its state wide banking system, it has been announced by E. C. Sammons, President of the United States National. The sale, approved by the Comptroller of the Currency, and by the directors of the two institutions, was effective with the opening of business on Feb. 28, Mr. Sammons reported. The tellers were T. J. Scroggin and associates. Beryl C. Swails has been appointed Manager of the new branch and G. Palmer Byrkit Assistant Manager.

Halsey, Stuart Offers West Penn Pwr. Bonds

Halsey, Stuart & Co. Inc. and associates are offering to the public today (March 10) $10,000,000 West Penn Power Co. first mortgage bonds, series N, 2⅞%, due March 1, 1979 at 101.10% and accrued interest. Award of the bonds was won at competitive sale on a bid of 100.71.

Net proceeds, in addition to those from the sale of additional preferred and common stock, and together with other company funds, will be applied toward the cost of the presently contemplated construction program of the company and its subsidiaries. The company estimates that this program, exclusive of Monongahela Power Co. and its subsidiaries, will amount to $41,000,000 through the year 1950.

The series N bonds will be redeemable at prices ranging from 104.75% to 100% and for the Improvement and Sinking Fund at 101.625% to 100%.

The company is engaged in the production, distribution and sale of electric energy in certain parts of 18 counties in Pennsylvania. Its territory covers approximately 8,775 square miles and has a population of approximately 1,100,000. The electric properties of the company constitute a part of the single integrated electric system of The West Penn Electric Co. and its subsidiaries.

Associated in the offering are Otis & Co. (Inc.); Cohu & Co.; Mullaney, Wells & Co.; Thomas & Co.; A. E. Masten & Co.; and Fauset, Steele & Co.

Hambleton Opens

(Special to THE FINANCIAL CHRONICLE)

HARTVILLE, OHIO — William P. Hambleton is engaging in a securities business.

Allied Chemical & Dye Corporation

To the Stockholders:

Herewith are presented the consolidated balance sheet of the Company at the close of business December 31, 1948, and the consolidated income account for the year.

Net income for the year was $31,771,204.

In 1948 the Company received from customers		**$387,709,342**
Interest, dividend and other receipts amounted to		**4,090,137**
These receipts were expended for:		
The cost of goods and services bought from others	**$217,592,818**	
The cost of human energy (wages and salaries)	**95,071,340**	
The cost of tools wearing out (depreciation) and contingencies	**17,248,936**	
The cost of payments ordered by Government (taxes)	**30,115,181**	
The cost of using the tools (compensation to owners)		
Paid to owners (dividends)	**19,926,891**	
Retained for needs of the business	**11,844,313**	
Total Receipts		**$391,799,479**

Receipts from customers in 1948 exceeded amount for the preceding year by approximately 6% and were the largest in the Company's history. Manufacturing and other costs continued to increase. Average hourly wage rates in 1948 were more than double average prevailing ten years ago, whereas increase in selling prices since that time has been comparatively small. In addition to regular dividends of $6.00 per share, the Company paid a special dividend of $3.00 per share.

By reason of the inflationary conditions of recent years, industry is confronted with numerous uncertainties. The Company has accordingly provided out of 1948 income, reserves for accelerated depreciation on post-war additions, increased costs incurred to replace inventories on hand at beginning of year, and other costs applicable to the year, aggregating $9,507,010. The provision for general contingencies of $10,000,000 charged to 1947 income has been redistributed on a similar basis, as described in footnote appearing on balance sheet.

During the year the Company disposed of certain of its securities, including the greater portion of its stock interest in the American Light & Traction Company. Net profit on securities sold during 1948 was $59,624. In view of the decrease in securities owned since 1931 when the Reserve for Investments and Securities amounting to $40,000,000 was created, this Reserve was reduced in 1948 by $20,000,000. However, because of the marked increase in cost of replacing worn-out facilities, a like amount of $20,000,000 was set aside as a Reserve for Increased Cost of Replacements to provide for the growing requirements for this purpose.

Gross additions to the property account amounted to $54,214,980 and retirements totaled $5,358,708. Among the products not heretofore manufactured by the Company for which facilities have been installed or are nearing completion are methanol, formaldehyde, organic fluorine compounds, anti-skinning agents for paints, and new detergents, insecticides and dyestuffs.

The Company's resources as evidenced by the balance sheet, in the opinion of the Directors, will enable it to share fully in the nation's industrial activity and to meet new conditions as they arise.

Respectfully submitted,

Dated, March 9, 1949. F. J. EMMERICH, *President*

CONSOLIDATED GENERAL BALANCE SHEET—DECEMBER 31, 1948

ASSETS

PROPERTY ACCOUNT		
Real Estate, Plants, Equipment, Mines, etc. at cost		**$393,302,368.28**
INVESTMENTS		
Sundry Investments at cost or less		**19,469,834.46**
CURRENT ASSETS		
Cash	$40,870,420.79	
U. S. Government Securities at cost	39,830,926.81	
Marketable Securities at cost	12,281,318.13	
Accounts and Notes Receivable—less Reserves	30,952,041.50	
Inventories at lower of cost or market — less Reserves	36,351,960.58	
		160,286,667.81
DEFERRED CHARGES		
Prepaid Taxes, Insurance, etc.		**2,763,742.33**
OTHER ASSETS		
Patents, Processes, Trade Marks, Good-will, etc.		**21,305,942.61**
Total		**$597,128,555.52**

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable	$14,087,624.93	
Wages Accrued	1,477,777.31	
Taxes Accrued	27,147,123.85	
		$42,712,526.09
RESERVES		
Depreciation, Obsolescence, etc.	$258,527,984.43	
Increased Cost of Replacements	20,000,000.00	
Investments and Securities	20,000,000.00	
General Contingencies	24,656,776.82	
Insurance	1,887,799.46	
Sundry	1,187,783.40	
		326,260,344.11
CAPITAL STOCK AND SURPLUS		
Common Stock, without par value, basis $5. per Share issued 2,401,288 Shares	$12,006,440.00	
Capital Surplus	101,037,235.00	
Further Surplus	140,949,310.80	
Total Capital Stock and Surplus	$253,992,985.80	
Deduct Treasury Stock	25,837,300.48	
		228,155,685.32
Total		**$597,128,555 52**

U. S. Government Securities include Treasury Savings Notes with principal value of $17,000,000; other U. S. Government Securities had a market value at December 31, 1948 of $22,824,833. Marketable Securities consisting of 114,100 shares of common stock of the United States Steel Corporation and 270,000 shares of capital stock of the Air Reduction Company, Inc., listed on the New York Stock Exchange, had a market value at December 31, 1948 of $13,068,988. Treasury Stock consists of 187,189 shares of common stock carried at cost. Further Surplus consists of $119,327,466 earned surplus accrued to the Company since its organization and $21,621,845 accrued to its constituent companies prior to the Company's organization.

The provision for general contingencies of $10,000,000 charged to income in 1947 has been redistributed as follows: $3,581,969 representing accelerated depreciation on post-war additions has been transferred to depreciation reserve and $3,918,031 representing increased costs incurred to replace inventory items on hand at beginning of year disposed of during year has been transferred to inventory reserve; the remaining $2,500,000 to cover other costs applicable to the year has been left in the contingency reserve. Similar provisions out of 1948 income for accelerated depreciation of $4,775,854 and for inventories of $3,231,156 have been credited to depreciation and inventory reserves, and provision of $1,500,000 for other costs has been credited to contingency reserve. Total inventory reserves at end of 1948 have been deducted from Inventories.

CONSOLIDATED INCOME ACCOUNT
YEAR ENDED DECEMBER 31, 1948

Gross Income from operations after provision for normal depreciation, obsolescence, repairs and renewals, all state and local taxes, exclusive of items enumerated below		**$59,730,951.35**
Accelerated depreciation on post-war additions	**$4,775,854.41**	
Reserve to cover increased costs incurred to replace inventories	**3,231,155.93**	
Other charges applicable to the year	**1,500,000.00**	**9,507,010.34**
		$50,223,341.01
Other Income:		
Dividends	**$3,541,718.48**	
Interest and profit on securities	**548,418.51**	**4,090,136.99**
Gross Income before provision for Federal Income Taxes		**$54,314,078.00**
Federal Income Taxes		**22,542,874.05**
Net Income		**$31,771,203.95**

SURPLUS ACCOUNT

Surplus at December 31, 1947		**$230,142,232.85**
Net Income year 1948		**31,771,203.95**
Transferred from Reserve for Investments and Securities	**$20,000,000.00**	
Transferred to Reserve for Increased Cost of Replacements	**20,000,000.00**	———
Surplus before Dividends		**$261,913,436.80**
Dividends declared on Common Stock	**$21,611,592.00**	
Less: Dividends on Treasury Stock, not included in Income	**1,684,701.00**	**19,926,891.00**
Surplus at December 31, 1948		**$241,986,545.80**

Accelerated depreciation on post-war additions to property account represents 5% of aggregate expenditures therefor in current and preceding year. In future, if operating rate declines, acceleration will be reduced ratably down to zero in event operating rate falls to 70% or less; total accelerated and normal depreciation over life of the facilities will not exceed cost thereof. The deductions from Gross Income enumerated above aggregating $9,507,010 have not been included as deductions for purpose of arriving at the amount of Federal Income Taxes for the year.

Allied Chemical & Dye Corporation,
New York, N. Y.

We have examined the consolidated general balance sheet of the Allied Chemical & Dye Corporation and its subsidiary companies as of December 31, 1948, and the statements of consolidated income and surplus for the calendar year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Consistent with redistribution made of $10,000,000 provision for contingencies charged to income in 1947, which we approve, income of 1948 has been similarly charged with $4,775,854 for accelerated depreciation of post-war additions to Property Account, $3,231,156 for increased costs incurred during the year to replace inventory items on hand at beginning of year, and $1,500,000 for other costs applicable to the year.

In our opinion, the accompanying consolidated general balance sheet and related statements of income and surplus, together with footnotes thereto, present fairly the financial position of the Allied Chemical & Dye Corporation and its subsidiary companies at December 31, 1948, and the results of their operations for the calendar year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 8, 1949. WEST, FLINT & CO.

Mutual Funds

By HENRY HUNT

Your Investment Company an Ally

Do you remember how in school many activities started with "choosing up" sides? When you were doing the choosing, it was quite a thrill to capture for your side somebody whose personality and ability you liked and admired. It gave you a vicarious sense of strength, both physical and spiritual, to see efforts exerted in the same direction as your own by persons of whose "striking power" you had witnessed many demonstrations.

This sense of touching shoulders, so to speak, that one learns very early in life flowers out in many directions as one grows up and becomes accustomed to the more sophisticated and complex relationships of life. The essentials, however, remain unchanged. We are still, in our mature years, choosing up sides and feeling the thrill of the football line as it charges forward or digs in and holds.

Superficially, investments are a pretty dull business. Just figures and engraved certificates. But behind these figures and pieces of paper lies the fascinating world of cooperative endeavor, of human striving, and of success and failure. Man has long since conquered his environment, and now, by competing with his fellows, has developed his skills to unbelievable heights.

Due to the complexities of modern civilization, however, the picking of one's allies in the field of investment in competitive business (where one does not actively participate) has evolved into the realm of specialized endeavor. Therefore, you may "choose for your side" an investment company to act as the general of your efforts to invest your funds conservatively productively. In so doing your investments will become part of many "teams" which are giving a variety of services to the American people; and you will pick your general so that working together with him will be a source of fruitful satisfaction to you—Written by **Edward C. Johnson, 2nd, President of Fidelity Fund.**

A Market for the Conservative Investor

"The year 1948, like 1947, was not a year for **speculators** in the securities markets. The volume of trading was small; price fluctuations were moderate. But it was a year for the **investor.**

"**Stability.** Price fluctuations—the range between high and low prices for the year—were, for the most part, very narrow. Bond, preferred and common stock prices showed marked stability. In general, then, the investor found that at the end of the year his capital was worth just about what it had been at the beginning and that never had it declined to any great extent or increased appreciably.

DJIA—Dividends

1929	$12.75	1934	$ 3.66	1939	$ 6.11	1944	$ 6.57
1930	11.13	1935	4.55	1940	7.06	1945	6.69
1931	8.40	1936	7.05	1941	7.59	1946	7.50
1932	4.62	1937	8.78	1942	6.40	1947	9.21
1933	3.40	1938	4.98	1943	6.30	1948	10.03

"**Income.** One outstanding fact about investment during the year was that it produced a good return. The computed dividend on the Dow-Jones Industrial Average—recognized index of common stock prices—totaled **$10.03** a share in 1948—**the largest since 1930.** At an average price of about 179 the average yield was more than 5%. If we include stock dividends, the total was **$11.99** for the year and the rate of return over 6%. Naturally, some issues paid less and

(Continued on page 17)

Prominent Personalities

(Ninth of a Series)

EARL E. CRABB
President, Investors Syndicate

Earl E. Crabb is President and Board Chairman of Investors Mutual, Inc., Investors Stock Fund and Investors Selective Fund. Investors Syndicate, of which he is President, acts as investment manager and distributor for these companies. Mr. Crabb also heads three other investment companies issuing so-called face-amount certificates which, together with the above open-end companies, comprise the "Investors Family." Total assets of this group of companies, including Investors Syndicate exceeded $575,000,000 at Dec. 31, 1948.


Earl E. Crabb

Earl was born in Bedison, Mo., a town consisting of six houses—his father ran the village store. As he grew up he longed to head West to make his fortune. In writing about this phase of his early life, Dale Carnegie, his boyhood friend and schoolmate said, "Earl's Sunday School teacher, fearing he might come to a bad end, gave him a book entitled, 'Sins of the Cities'—so Earl packed some underwear and 'Sins of the Cities' and headed for Cheyenne, Wyo."

Mr. Crabb's first job was with the Union Pacific System in the then rough and tough frontier town of Rawlins, Wyo. Most of his early experience was with that System's Accounting Department in Cheyenne, Omaha and Portland. He entered the financial field in 1919, first as Auditor and later as Vice-President and Treasurer of a mortgage and bond house in the Pacific Northwest. In 1925, his principals acquired control of Investors Syndicate, whose assets then totaled less than $12,500,000. Crabb moved to Minneapolis as Vice-President and Treasurer of the company, advancing later to Executive Vice-President, and in 1939 to the Presidency.

Early in the '30s, he became interested in the theory of the mutual type investment company, particularly following the Federal investigations made in connection with pending securities laws. He was impressed with the results obtained by some of the well established companies in the East and with the possibilities in this field for his own organization. Late in 1939, he proposed to his associates the organization of such a company and in January, 1940, Investors Mutual was incorporated. The success of Investors Mutual has been little short of phenomenal. At Dec. 31, 1940, its total net assets were approximately $285,000. They are now over $130,000,000.

Early in his career with "Investors," Crabb had developed a keen interest in its sales organization. He had found time to establish the company's house organ, "The Broadcaster," and for its first five years, acted as its Editor as a side issue to his administrative duties.

"I am a firm believer," says Crabb, "in the importance of the neighborly and direct contact with our investing customers that is possible only through an organization devoted solely to our own securities. We have over 350,000 investors on our books, many of whom have been with us continuously for 15 or 20 years. This represents an intangible asset of inestimable value."

This sales organization is unique in the investment field. Its operations extend over 42 states in the United States and eight Provinces in Canada. Nine Sales Managers are in charge of the territorial divisions of the continent and this territory is further divided into 158 divisional offices. This type of organization is similar to agency operations of life insurance companies.

"We try to give the conscientious salesman the best of training and then to so supervise his sales work as to simultaneously help him and to protect him and the company from the results of any improper or undesirable sales methods. No sales organization of this size, so far as I know, is going further than ourselves in establishing methods and procedures designed to maintain a higher level of sales ethics and practices."

Mr. Crabb has an intimate grasp of practically all the operations of the corporations he heads. He is not adverse to long hours and is usually to be found at his desk long after the 5 o'clock whistle blows.

His childhood was spent on a farm where the day began with the "chores" completed by sun up and a 12-hour work day was standard.

His principal hobby is his Contax Camera. He also classifies himself as a dub golfer and finds time during the summer for a little fishing near his summer home in Northern Minnesota, the heart of the 10,000 Lake Region.

Croll and Hagerty With Jacquin, Bliss & Stanley

Jacquin, Bliss & Stanley, members of the New York Stock Exchange, announce that C. Leslie Croll and William A. Hagerty are now associated with the firm at its Hotel Biltmore office.

Mr. Croll was formerly in the investment department of the General Electric Co. and with Merrill Lynch, Pierce, Fenner & Beane. Mr. Hagerty was previously with Hoppin Bros. & Co.

Mutual Funds

(Continued from page 16)

some paid more—but, in general, income classes of securities paid the investor well.

"This is attested by the United States Department of Commerce figures for total dividends, bond interest, and other personal interest which was running at an annual rate of $18 billion at the latter part of 1948. This is the highest annual figure on record—15% greater than 1947, a third again as much as the previous high of 1929, and twice the figure for the low year of 1933.

"**Value.** Despite good investment income experience, only a moderate amount of 1948's high earnings was paid out to the investors—around 35% as compared with the 'normal' expectation of about 65% or more.

"An unusually large proportion of earnings has been going into necessary replacement or expansion delayed by the stringencies of war economy. As the need for the plowing back process diminishes, it is expected to decline. Meanwhile, earning power, the equity represented by stocks and the property value backing up bonds, is increased by such expenditures—and the intrinsic value of the investment correspondingly increased."—From "Keynotes," published by the **Keystone Co. of Boston.**

"Broad Street" Comments

"Evidence pointing to adjustments, in both commodity prices and many lines of business activity, continues to accumulate. Business activity in general seems to be returning to more nearly normal levels, and commodity prices will probably stabilize well below the exaggerated peaks reached during the last three years' shortages—but both indices should remain well above their prewar levels. This seems the more likely by reason of well-buttressed consumer purchasing power and the prospect of sizable government spending. Based on the historical growth trend of American business, the 'normal' level of industrial production after the adjustment period is over, should be substantially above prewar levels and not so far below the recent peaks as might be supposed. With the dangers of continuing price inflation lessened and the return to usual competitive business conditions, it seems logical to expect a more normal market appraisal of earnings. Even though such earnings may be somewhat below their postwar highs, greater investor confidence in the continuity of earnings may prove the more important determinant of stock price levels."—From the **"Broad Street"** Sales Letter.

Cites Dangers in High Construction Costs

Guy C. Kiddoo, Vice-President of First National Bank of Chicago, tells contractors, despite decrease in labor productivity, high costs should not be accepted as inevitable.

Speaking before the Associated General Contractors of America in New York City on March 1, Guy C. Kiddoo, Vice-President of the First National Bank of Chicago, expressed the belief that a substantial drop in building costs is improbable, and warns that this situation "is of serious concern to our national welfare."

Guy C. Kiddoo

"There is a tremendous need for housing but costs have currently put new homes beyond the reach of many who need them most. You should not accept high costs as inevitable and simply pass them on to owners and public authorities. You should be ever alert to devise and adopt means of reducing costs, because as you do so you broaden the market for your services."

Mr. Kidoo further stated: "The decrease in productivity of labor in recent years, as compared with the years before the war, is disturbing. You all know, better than I, that the labor cost of most operations now as compared with prewar years is proportionately much higher than the increase in labor rates. It is no solution to blame this on someone else. The fundamental causes of this trend and the unsound thinking upon which it is based present a challenge which should be met through every possible means of education and persuasion.

"Momentous problems confront our country as a whole and international involvements must inevitably affect your business. Too often it seems that our national political and economic decisions are based on false premises, which lead us only deeper into trouble.

"You should take time as individuals, as I am sure the officers and staff of your great Association are doing, to look down the years ahead and attempt a sober appraisal as to whether the Ship of State is headed in the direction you desire. If not, seize every opportunity to exert your influence to change its direction.

"If we could only implant firmly in the consciousness of everyone a firm belief in some simple fundamental truths, we might avoid some of the errors and troubles that seem to lie ahead. This education should start at the grass roots and pound home some simple principles such as these: You can't get something for nothing. We can enjoy only what we produce. A gain through force or pressure without a corresponding contribution to the national good, brings a loss to someone else. State guaranteed security means some surrender of liberty and opportunity.

"I know you all want to pass on to your children the privilege of enjoying the fruits of their labor, and the freedom of opportunity and liberty of action which have made possible your success. Let us ever be alert to protect and defend the heritage we enjoy as free people."

NYSE Promotes Staff

Emil Schram, President of the New York Stock Exchange, has announced the following staff promotions:

Frank J. Coyle has been made an Assistant Vice-President. He will continue as Director of the Department of Member Firms.

Leonard G. Bedarf has been made Treasurer of the Exchange and of its affiliated companies, succeeding Charles Klem. Mr. Klem will continue as a Vice-President. Mr. Bedarf has been Assistant Treasurer.

Walfred Johnson has been appointed Assistant Treasurer of the Exchange and of its affiliated companies.

Investment Company Economic Role Discussed by Whitehead

As reported by DOUGLAS K. PORTEOUS

Factors making Mutual Funds advantageous to dealer firms, salesmen, and investors cited in detail.

The growing importance of the investment company to various segments of society was detailed by Louis H. Whitehead, proprietor of Louis H. Whitehead Co., brokers and dealers in investment securities, in New York City on March 1. Mr. Louis H. Whitehead was the third speaker in the course on Retail Salesmanship of Mutual Investment Funds conducted by the New York Institute of Finance. He announced his subject as "The Economic Role of the Investment Company — or the Spot it will Occupy in the Financial World in the Future."

Louis H. Whitehead

A highlight in the development of the subject was the announcement of the formation recently of a diversified investment fund in Israel, the Anglo-Palestine Bank Investment Company. It was stated this fund is patterned along the general lines followed by institutions of this character in the United States and England.

Mr. Whitehead outlined the many advantages of Mutual Funds to Dealer firms as follows:

(1) They are the answer for dealing with the small investor. Also the answer to the large investor; $10,000 purchase, $600 gross.

(2) They deal with registered securities; reduces liability.

(3) A constant supply of merchandise is always available.

(4) The excellent literature which reduces printing bill.

(5) Supervision of sales force is made easy.

(6) Trading problems are reduced; making for lower overhead.

(7) No capital is tied up in positions.

(8) Prices are fixed.

(9) Profit margins are big.

(10) Task of supervision is trivial.

(11) The salesmen make money.

(12) Turnover of customers and salesmen is practically nil.

The advantages of Mutual Funds from the standpoint of the salesman were given full discussion. Mr. Whitehead listed them as follows:

(1) You can forget your doubts about the quality of the merchandise.

(2) All the facts are available—the Funds live in a goldfish bowl.

(3) Your orders will always be filled; adequate offerings, firm bids.

(4) Plenty of sales literature available.

(5) You can learn your deal.

(6) No doubts about prices—faith in your trading department continues unshattered.

(7) No arguments with clients about markets and executions. Published prices will substantiate you.

(8) Servicing of clients is simplified. Funds do not pass dividends.

(9) Commissions are big. Sales totaling $25,000 monthly or $300,000 in one year—at a 3% commission rate — will make you $9,000.

(10) Radiation develops. Customers know this "way of investing" is sound and they advise their friends to make purchases.

(11) You do business with intelligent customers, prosperous bosses and charming wholesale men.

In the realization we do not live in a vacuum but that the industry must have retail customers, Mr. Whitehead next took up the most important topic of the lecture under the heading, "The importance of a Mutual Fund from the standpoint of the investor." He cited the following advantages:

(1) Diversification, "not carrying all your eggs in one basket," provides protection against unusual degrees of risk.

(2) The task of continuous supervision of the economic and business factors affecting your investments is reduced—peace of mind develops.

(3) The shares are good collateral.

(4) The income is liberal and assured. Four dividend checks each year.

(5) The cost is low. The service covers selection, supervision and custody.

(6) Your time in handling financial affairs is reduced; few certificates, few checks to deposit, fewer proxies, etc.

(7) Income tax accounting is simplified.

(8) Independence of securities salesman who may watch your local securities.

(9) The problems of estate settlement are simplified and the costs are reduced.

James Wiley Joins Dean Witter & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James Wiley has become associated with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. Wiley was previously with Blair & Co., Inc.

George T. Curley With Kidder, Peabody & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—George T. Curley has become connected with Kidder, Peabody & Co., 115 Devonshire Street. Mr. Curley was formerly manager of the municipal department of Townsend, Dabney & Tyson and prior thereto was an officer of Robert Hawkins & Co., Inc.

Canadian Securities

By WILLIAM J. McKAY

Despite the wealth of favorable statistics covering recent past performances, the Canadian economy is now faced with many critical problems. As far as the long range prospects are concerned there is unquestionably little cause for pessimism, but rather for a high degree of optimism. On the immediate horizon, however, a few clouds are beginning to appear that might shortly take on a more threatening aspect.

The vital factor that determines the degree of Canadian prosperity and the level of the Canadian standard of living is without doubt the volume of the Dominion's export trade. During 1948 Canadian exports attained an exceptionally high level as a consequence of favorable conditions which have since undergone a decided deterioration. For example, offshore purchases in the Dominion for wheat shipments to Europe under the E. C. A. program are now jeopardized as a consequence of embarrassing grain surpluses in this country. The highly promising prospects for another exceptional harvest this year will bring additional pressure on the Administration to confine E. C. A. grain shipments to domestic surplus supplies.

During the past year also Canada was able to find a market south of the border for approximately $100 million worth of cattle and sheep as a result of the lifting of the Canadian livestock embargo; this total is not likely to be approached in 1949. Other exceptionally high export items during 1948 were in the base-metal and forestry products categories. There are now clear indications that the previously insatiable demand for copper, zinc, aluminum, and lead has been largely satisfied. This condition also applies in large degree to the markets here for pulp and paper, and definitely to lumber.

A further disturbing development in the Canadian export situation is the increasing tendency in the British Dominions to curtail imports from Canada as a result of increasing currency stringencies. The United Kingdom also has made it quite clear that the volume of Canadian exports to Britain will be dependent on the Canadian capacity to buy British goods. This condition will be difficult to fulfill as the current price-level of many British export lines is far too high to be competitive in the Canadian market with similar U. S. goods.

The uncertain elements in the Canadian economic situation moreover are not confined merely to foreign trade difficulties. In the field of finance there is also evidence of increasing concern regarding Canadian capacity to supply the capital funds necessary to maintain the war-inflated Canadian economy at its present peak-level. Official concern on this point is demonstrated by the recent reversal of policy on the part of the Bank of Canada in withdrawing the suggestion made to the chartered banks in February, 1948, to refrain as far as possible from extending bank credit for industrial capital expenditures.

In view of the political uncertainties that also cloud the current Canadian picture it is increasingly clear that from the angle of the investor in Canada the present situation calls for increasing caution and reappraisal of the situation in general. As matters now stand a general election might be called at any time during the next few months with the risk that the regime that has been in power, almost uninterruptedly since 1921, might be overthrown. In this event the avowed policies of the Progressive Conservative, and C. C. F. opposition parties are certain to produce fundamental changes in the administration of Canadian economic affairs.

During the week both the external and internal sections of the bond market were dull and neglected. Free funds continued firm on out-of-town demand and the corporate-arbitrage rate at 14% bid also registered a slight improvement. Stocks, following an earlier resumption of the recent sinking spell, finally made a distinct recovery in nearly all departments. Western oils recovered sharply from their low point of the year led by Anglo-Canadian as a result of favorable drilling reports. Also disclosures concerning Imperial Oil's new Schoepp field to the northwest of Leduc-Woodbend indicate that a fourth major Alberta oil-field may be in the process of development. Industrials and base-metals likewise made headway following their recent period of sustained losses, and the golds also finally broke out of their narrow range to register modest advances.

J. Dorsey Brown Forms Own Firm in Phila.

PHILADELPHIA, PA.—J. Dorsey Brown has formed J. Dorsey Brown & Co. with offices at 1411 Walnut Street to engage in the securities business. Mr. Brown was formerly with Mackubin, Legg & Co. and prior thereto conducted his own investment business in Baltimore.

J. Dorsey Brown

Riverside Cement Co. Shows Earnings Up

The Riverside Cement Co. of California earned $1,608,262, after depletion and depreciation of $1,363,550, and taxes of $1,330,559, for year ending Dec. 31, 1948. This is equivalent to $6.51 per share on 240,000 shares class "A," and $3.66 per share on the 345,000 shares class "B" (disregarding arrears on the "A"). Net earnings in 1947 were $1,046,415, after depletion and depreciation of $487,936. In 1948, company charged off $600,000 of "accelerated depreciation" without which earnings to the "B" stock would amount to $5.40.

The company has completed its expansion program started in 1946. Present capacity is estimated at about 6½ million barrels annually which makes it the largest cement company in its area. Located in fast-growing southern California, company appears to have excellent long-term prospects. This company operated in the black every single one of the past 19 years—an unusual record for a cement company.

Results for year ending 1949 could be best in the company's history because it will be the first full year since the war that the company operates at this new capacity level, without being hampered by its own expansion program.

Class "B" stock trades over-the-counter in New York, Boston, and the West Coast, and is currently selling around 4.

Arrears on the "A" (entitled to $1.25 cumulative dividend plus 25c participating) are about $4,500,000. These could be cleared up in a few good years. Good earnings outlook and reorganization possibilities could give the "B" stock excellent leverage at current prices, according to Lerner & Co., 10 Post Office Square, Boston, Mass.

Herrick & Torrey to Be Formed: NYSE Firm

Herrick & Torrey, members of the New York Stock Exchange, will be formed as of March 21, with offices at 55 Liberty Street. Partners will be Barrett Herrick, Clare M. Torrey, Frederick L. Chapman, William T. Baker, Frederick T. Sutton, Harwood Gilder, general partners, and Alice P. Baird, limited partner.

Mr. Herrick and Mr. Chapman are officers of Herrick, Waddell & Reed, Inc. Mr. Sutton has been proprietor of F. T. Sutton & Co. Mr. Torrey, who has recently been doing business as an individual dealer, was previously a partner in Van Alstyne, Noel & Co. and Cohu & Torrey. Mr. Gilder is an officer of American Trusteed Funds. Mr. Baker will hold the firm's exchange membership, acquiring that of the late William E. O. Bebee.

CORRECTION

In the "Financial Chronicle" of March 3, in reporting the association of William J. Cooney with Proctor, Cook & Co., 35 Congress Street, Boston, Mass., it was indicated that Mr. Cooney was formerly associated with Whiting, Weeks & Stubbs. William J. Cooney, Jr., was, and still is, associated with the municipal bond department of Whiting, Weeks & Stubbs. Mr. Cooney, Sr., who has become associated with Proctor, Cook & Co. was formerly with Paine, Webber, Jackson & Curtis, with Soucy, Swartswelter & Co. as manager of the bond department, and with Kidder, Peabody & Co. and Lee Higginson & Co.

Our Expanding Bureaucracy

By HON. HERBERT HOOVER*

Former President, now heading Commission on Reorganization of the Executive Branch of the Government, cites quadrupling of Federal employees within past 16 years. Declares effect has been to strip citizen of control of his life.

Today there are bitter complaints from all over the land at the size of the Federal bureaucracy. There are in fact almost as many Federal officials — and I exclude the military — as there are state, county, and municipal officials, including the police. These Federal employees grew from about 500,000 to 2,200,000 in less than 16 years. They are not in Washington. Ninety percent of them are out in the sticks endeavoring, under direction from Washington, to improve the lot of the citizen, whether he likes it or not. Often their energies are devoted to taking something away from him. This commission hopes to reduce the number somewhat but the cause of this growth lies deeper than this Commission can remedy.

Herbert Hoover

You may have a short explanation as to how we got this way. I know what you would likely say. But it is deeper than that. In addition to the natural instinct of bureaus to exfoliate in their desire to improve the lot of man, two great pressures have been at work.

Manna From Washington

Our people, under the illusion that money from Washington is pure manna, are selling right and left their birthright as free men, and their responsibilities in a free man's government, in order to get it. And then there are those who are impatient with the slow processes of local reform and who conceive that all may be good if the Federal Government would only pass a law, set up a bureau, and make an appropriation.

Pray do you think that I do not know all the arguments. Nor am I arguing the wisdom or non-wisdom of such action. I merely wish to point out this underlying cause of this growth and one effect that is being overlooked.

I need not repeat the original idea of this Republic that the Federal Government was to be a government of limited powers; that the major protection of the personal liberties of the citizen rested upon state and local governments. The Founding Fathers seemed to have had a notion that a bureaucrat might be more responsive to the will of the people if this head office were down the street instead of 3,000 miles away in some pentagon building. That notion is worth thinking about again today. Step by step, however, the citizen has surrendered a large part of the control of his life to an increasingly centralized government and that is where part of this two million Federal civil employees come from.

I will give you an illustration from several hundred available. In order not to be too personal and hurt your immediate feelings, I will give you one from 2,000 miles away, instead of right within 10 blocks of this meeting.

The Federal Government owns over 150 million acres of land in the West which has little purpose except the grazing of animals. In the course of time the ranges were overgrazed and a great national resource was in danger. Local governments complained bitterly that the Federal Government should look after its possessions.

I, being in the White House at the time, made the proposition that the Federal Government should make a gift of the surface rights of these lands to the state governments who could administer them along with similar large holdings of the state governments. They refused the idea of this gift to local government. They refused because they wanted Federal money for improvements and administration of these lands. The Federal Government, being a big land owner, of course felt its obligation, especially as it was spotted with votes.

But the government, in exercise of this duty, proceeded to build up a new bureaucracy, directed from Washington, to spend the money and guide the cattlemen and sheep men in the paths of sweetness and light.

Then that bureau, located in the Department of Interior, began to exfoliate with new functions which grievously duplicated those of the Department of Agriculture. At this stage the problem comes up to the Commission on Organization. We deliver the Solomon-like judgment that, as the problem wholly concerns agriculture, these functions should be placed in that Department, thereby eliminating duplication and waste of public funds. Then came a cry from the West. They don't want this: They think perhaps they have more influence with the Department of the Interior than with the Department of Agriculture. They also offer other arguments.

I am wondering if the real answer occurs to you and to them? The people in the public land states should demand the right to administer their own farms and ranges with their own state and county officials. They should have the courage to undertake their responsibilities. Otherwise, they are contributing one more mite to the surrender of man's most precious possession—the liberties of self-government.

If you do not like a centralized government of a growing bureaucracy you might think over some other possibilities nearer home.

*Remarks of Mr. Hoover before N. Y. State Chamber of Commerce, March 3, 1949.

India Obtains Loan From World Fund

The International Monetary Fund has announced that the Government of India purchased $24,180,000 from it during February. This brought India's total drawings from the Fund to $92,480,000.

India was the only member to draw upon the Fund's resources in February.

India's dollar transactions during the month just past increased the total of currency purchases by member countries from the Fund to the value of $699,983,380.91. These have taken place since the Fund began exchange operations on March 1, 1947.

Dollar purchases by India from Fund in exchange for Indian rupees began with a $28 million transaction on March 29, 1948. This was followed by Indian purchases of $8,060,000 on May 21, 1948, $8,060,000 on June 29, $8,060,000 on Nov. 26, $16,120,000 on Dec. 30, $12,090,000 on Feb. 1, 1949 and another $12,090,000 on Feb. 7.

Hoover Group Would Revamp Fed. Res. and SEC

Recommends Federal Reserve be given greater monetary and fiscal authority, while SEC should regulate margin requirements, subject to Federal Reserve veto. Advocates National Monetary Council to coordinate Federal financial policies.

A "task group" of the Hoover Commission, appointed to make recommendations for reorganization of the Federal Executive Department, has issued a preliminary report relating to the Federal Reserve Board, the Securities and Exchange Commission, the Department of Commerce and other agencies having jurisdiction over monetary, fiscal and economic affairs. This "task group," which is advisory in character, is headed by Owen D. Young, former Chairman of the General Electric Company and Professor Robert R. Bowie of the Harvard Law School. It is expected that a final report from the full Hoover Commission will be issued shortly, which may accept or reject recommendations of the so-called "task force."

Among the "task-force" recommendations are: (1) creation of a new National Monetary Council to advise the President on monetary and fiscal matters; (2) enlarging powers of Federal Reserve Board by extending its authority over reserve and other requirements to all banks in the nation; and (3) transferring from the Federal Reserve Board to the Securities and Exchange Commission the regulation of margin requirements on stock exchange transactions, the Federal Reserve Board, however, retaining a veto power in such matters.

The proposed National Monetary Council would consist of the Chairman of the Federal Reserve Board, the Secretary of the Treasury, the Director of the Budget, and representatives of other government agencies. The aim of the council in coordinating Federal monetary and fiscal policies, would be to check what the "task force" now claims is domination of national monetary policies by the Treasury Department. "Domination by the Secretary of the Treasury," says the report, "as is now prevalent in monetary-fiscal policy, would continue the age-old Treasury bias in favor of too-easy money in inflation periods, against effective monetary restriction. The danger of domination by this attitude, reflecting the Treasury's necessary preoccupation with the needs of current fiscal operations, is greatly strengthened by the huge volume of public debt now outstanding."

The "task force" upheld the recent demands of the Reserve Board for more authority to regulate the reserve requirements of all banks insured by the Federal Deposit Insurance Corp., but at the same time it advised that the Federal Reserve's power to fix margin requirements in security transactions be transferred to the Securities and Exchange Commission. However, the power to require a change in margin requirements and authority to veto a proposed change should be left with the Federal Reserve. It is pointed out by the "task force" report that the original purpose of the Federal Reserve Board's authority over margin requirements was to prevent speculation excesses and diversion of credit into securities transactions, but since this move has largely disappeared, the SEC's familiarity with the securities markets and market influences puts it "in good position to consider whether undesirable market operations and activities may be curtailed or controlled by use of the margin limitations."

The "task force", though commending the SEC's efficiency, also made recommendations for changes in its activities. These changes include: (1) integration of several SEC statutory requirements so as to eliminate either duplication or excessive amounts of information and data demanded by the SEC; (2) a change in SEC procedure so that in appeals the counsel for issuers may attend hearings in which members of the staff of the Commission present their arguments; (3) clarification of the SEC's authority to use or withhold its powers other than that of achieving full disclosure; and (4) greater publicity of SEC rulings.

Regarding the need of integration of the SEC laws, the "task force" states:

"Our attention has been directed to the desirability of integrating some of the provisions of the various statutes administered by the Commission in order to simplify compliance with them. These pioneering acts were adopted in sequence as new aspects or areas of regulation developed. The earlier statutes obviously could not anticipate the later ones and the more important later acts were adopted before extensive experience was available under the earlier ones. As a result, there is some duplication in requirements under the statutes.

"The requirements as to filing of information concerning securities seem to furnish an example: (a) New securities offered to the public must be registered under the Securities Act of 1933 by means of a comprehensive registration statement. (b) Under the Securities Exchange Act, securities to be listed on the exchanges must also be registered, and the information with respect to them must be kept current through annual and other reports. (c) If the securities being offered, and registered for that purpose under the Securities Act, are securities of registered holding companies or their subsidiaries, then under the Holding Company Act a declaration covering the securities must be filed with the Commission and permitted to become effective.

"In order to lessen the burden of complying with these various acts, the Commission has authorized the use (for example) of a Securities Act prospectus as the substance of an application for registration under the Exchange Act. But the duplication of filings and of information already on file with the Commission still seems to be burdensome. On the other hand, simpler regulatory methods should not be achieved at the expense of adequate protection of investors.

"In view of the complexity of the problems, Congress can hardly work out such a revision or codification without the combined help of the Commission and the industry. Only an agreed revision seems likely to achieve the desired objectives and to present the matter to Congress in a form capable of effective handling.

"We therefore recommend that the Commission and the industry collaborate on an effort to integrate the requirements under the several statutes and to simplify the methods of regulation so far as is consistent with the maintenance of adequate protection to the investing public."

Norman Single Dead

Norman C. Single, with Dominion Securities Corp., New York City, for the past 22 years, died March 7 of a heart attack at the age of 43. He was an active member of the Security Traders Association of New York. Mr. Single, who lived at Lynbrook, L. I., is survived by his wife and two children.

How Real Were 1948 Profits?

By JULES BACKMAN*

Associate Professor of Economics, New York University School of Commerce, Accounts and Finance

Economist points out numerous factors qualifying genuineness of currently reported dollar profits. Among these have been: the extent to which profits represented price increases (including inventory-appreciation), inadequate depreciation calculations, and the purchasing power of the profit dollars. Concludes higher taxes would accelerate deflationary tendencies, and contribute importantly to major depression.

Reported dollar profits before and after taxes reached their highest level in 1948. Corporate profits before taxes were reported at $32.2 billion; corporate profits after taxes reached $19.7 billion. The question is "*How real were these profits?*"

A major factor distorting the significance of profits in the postwar period has been the inventory profits which have accompanied the sharp rise in prices during this period. Unless a company uses the last-in-first-out (LIFO) method of valuing inventories, in calculating its profits it takes into consideration lower levels of costs than those which prevail at the time the product is sold. Under these circumstances, part of the reported profits are immediately tied up in higher priced inventories.

Jules Backman

During periods of rising prices, such inventory profits would be anticipated in addition to the regular operating profits. During periods of stable prices, little or no inventory profits would materialize, while during periods of declining prices, inventory losses, rather than inventory profits, would be expected. If present price tendencies were to continue, namely, either a leveling out or a decline in prices, it would be logical to anticipate that in 1949 there would be no inventory profits. On the contrary, should price declines continue, inventory losses would be most likely to take place.

*Excerpts from an address by Dr. Backman before the Economic and Business Foundation, New Castle, Pa., March 3, 1949.

During the three year period 1946 to 1948, reported corporate profits after taxes aggregated $50.6 billion. During the same period, the U. S. Department of Commerce estimated that the inventory valuation adjustment was $13.1 billion. Thus, *during this three year period, more than one-quarter of total reported corporate profits resulted from the higher prices of inventories.* In 1948, inventory profits were less important and accounted for $3.0 billion out of a reported $19.7 billion of profits, or 15%. Since companies had to replace the lower priced materials with higher priced materials, it is clear that part of the reported profits were not available in cash and really represented higher cost goods tied up in inventory.

In terms of real income to the firm, what we find in effect, is this. A firm starts the year with 100 units of goods which cost $1,000. It ends the year with 100 units of the same goods which now cost $1,200. Because of accounting conventions, this company is shown to have made a profit of $200—in addition to its operating profit—even though in terms of real goods and services, it is no better off or worse off than it was at the beginning of the year insofar as this inventory is concerned. The firm could realize a profit of this type only if it went out of business and liquidated its inventories at the prevailing price level. Otherwise, *what has been called profits, really represents the higher cost of replacing inventories.*

If companies failed to replace their inventories and used these so-called profits to pay dividends, part of such payments could easily become a payment out of capital rather than out of current operations.

Depreciation Reserves

Depreciation reserves ordinarily are calculated by taking the cost of a plant, deducting the anticipated salvage value, and dividing the remaining amount by the number of years the plant is expected to be used. Thus, for example, assume that a plant had two machines, each of which cost $1 million. Presumably a total of $2 million would be accumulated over the years as depreciation for these two machines. If at the time they were used up the price of the machines had doubled, the company would be able to buy only one machine with these funds and thus, in effect, would have reduced its real capital by one machine.

Under present Treasury rulings, the extra amounts required to accumulate the funds adequate to meet the higher costs of these machines cannot be treated as expenses deductible for tax purposes. It is necessary, therefore, for companies to meet this higher cost out of their reported profits after taxes. To the extent that these costs must be met, profits are overstated. George O. May, a leading accountant, has estimated that in 1947, depreciation fell some $2 billion short of the amount required to cover the depreciation on current replacement costs.

It is impossible to determine precisely the extent to which de-

(Continued on page 29)

Public Utility Securities

By OWEN ELY

Commonwealth Edison

Mr. J. Harris Ward, Secretary of Commonwealth Edison, recently addressed the New York Society of Security Analysts, presenting a series of interesting charts showing estimated projections through 1952 for both the industry and Commonwealth. He estimated that the latter's growth will be somewhat slower than for all U. S. utilities—14% during 1948-52 compared with 23% for the U. S. (as estimated by the "Electrical World").

Continued growth of the industry's residential load seems assured, and such growth would become phenomenal if the use of the heat pump, or ceiling panels for heating, should become general; this would increase residential usage some seven to 12 times. But regardless of this possibility, residential use should be doubled eventually through broader utilization of the electric range, the home freezer, water heater, dishwasher, clothes drier and electric blanket. The increased use of these appliances is the natural answer to the problem of the missing servant girl.

Even if the increase in appliance use should prove disappointing, some experts expect present lighting intensity to be at least doubled. Builders are becoming increasingly appliance minded; a builder in the Chicago area recently completed 87 all-electric homes which he has equipped with appliances having an estimated annual use of 6,000 KWH per home. Moreover, the average householder can well afford increased use of electricity—in proportion to his total budget he is paying out a smaller proportion than he did a decade ago for electricity—.9 of 1% compared with 1.6% before the war.

Mr. Ward presented an interesting chart showing the increasing annual KWH sales per customer as additional appliances are added. Lighting alone takes only about 300 KWH a year. The use of an electric iron, refrigerator, radio and miscellaneous small appliances would bring this up around the 1,000 level. With automatic heating, electric range and water heater, output would jump to the 6,000 level. Television, air-conditioning and clothes drier would push it up to around 7,500; while the use of the heat pump on a year-around basis would step up the usage to over 13,500 KWH.

Greater use of electricity on the farm is expected because of the advantages of labor-saving devices; the Illinois farmer already uses more than twice as much as the average home. Commercial use of electricity should also continue to expand with increased use of air-conditioning, air-cleaning, electric stairways, improved fluorescent lighting, etc. An office building in the Chicago Loop was recently remodelled and will now use three times as many KWH as previously.

The "Electrical World" estimates that in the period 1946-52 inclusive, the electrical industry will increase capacity 55% to take care of a 51% increase in peak load. Commonwealth's capacity will be increased only about 31% for the same period compared with an anticipated gain in peak load of 22%. One reason why the Company's program is smaller than that of the country as a whole is that Illinois Power and Northern Indiana Public Service are now installing 187,000 KW new capacity, which will greatly reduce their purchases of power from Commonwealth. Commonwealth also differs from the industry as a whole in that it is planning a smaller reserve than it had before the war—about 10% compared wtih the present 12%. Moreover the older centers of population are not growing as fast as some other sections, and Commonwealth considers it in the interest of its stockholders to avoid over-building. Any company's rate of expansion directly affects the size of a possible error in judgment.

Commonwealth plans to spend $340,000,000 on new construction in the four years 1949-52, increasing total plant to $1,200,000,000. Depreciation, amortization and undistributed net income (plus cash on hand) will provide over half the cash requirements, so that only about $150,000,000 will have to be raised through new financing.

Commonwealth's fuel bill would have been reduced $3,000,000 last year if they could have substituted 300,000 KW new capacity for the old. Such a saving would cover a substantial part of increased carrying charges, depreciation, and operating costs. Eventually the company hopes to save $5,000,000 through increased efficiency. But while transmission and distribution facilities are also more efficient than formerly, nevertheless there is no assurance that this efficiency will fully offset increased capital costs. Hence the necessity for rate increases, which have already been granted in Washington, D. C., Cincinnati, Detroit and the Twin Cities.

As regards the industry program of construction expenditures, Ebasco some time ago estimated average expenditures of about $1.5 billion in the period 1948-51, and the "Electrical World" now estimates an annual rate of about $2 billion. 1949 construction needs, as estimated by the "Electrical World" for all U. S. utilities, would be provided as follows:

	Millions	Per Cent
Depreciation Reserve	$406	19%
Retained Earnings	364	17
Bank Loans	171	8
Bonds	748	35
Preferred Stock	128	6
Common Stock	323	15
	$2,140	100%

Kenneth Sarles With Burr & Company, Inc.

Burr & Company, Inc., 57 William Street, New York City, announce that Kenneth D. Sarles is now associated with the firm.

Mr. Sarles was formerly manager of the municipal department of the New York office of Otis & Co.

Newburger Co. Continues Visualization Program

PHILADELPHIA, PA. — Newburger & Co., 1342 Walnut Street, members of the New York and Philadelphia Stock Exchanges, have in their offices, in accordance with their Visualization Program, and as the fourth in a series, an exhibit of Cluett, Peabody & Co., showing their latest products.

Unlearned Lessons

"A great deal was learned from those four years of World War II. We learned, among other things, that the organization of our War and Navy Departments, prescribed by detailed statutes, was far too rigid and inflexible for the actual conduct of war. We learned that modern war required the combined use of air, naval and land forces welded together under unified commands overseas, and under the strategic direction of the Joint Chiefs of Staff.

President Truman

"Other lessons were also learned. We learned that widely diverse supply policies of the separate services were costly, and hampered the total effectiveness of military operations. We learned that there were great differences in training and combat doctrine among the services, and that these differences often provoked sharp conflicts in our theatres of operation."—President Harry S. Truman.

There are other lessons which apparently were not learned. One of them has to do with the reckless extravagance with which all the services operated.

Not even the United States of America could go on indefinitely winning close, hard wars with such disregard of pointless waste.

If and when the services are really unified, serious attention should be promptly given to this aspect of war making.

LETTER TO THE EDITOR:

Holds Hard Work Will Dispel Gloom in Security Business

William A. Spanier, of Bennett, Spanier & Co., Inc., Chicago, says what is needed is a more optimistic attitude by salesmen and security houses. Contends there is plenty of business to be had, if salesmen go after it.

Editor the "Commercial & Financial Chronicle":

What's Wrong With the Security Business? That's the question prompted by letters that we receive from various brokerage houses complaining about business being bad, etc. Well—here's the answer.

There is nothing wrong with the security business that the security salesman and house can't cure themselves. To all the guys that are complaining, my answer is—"if you think everything is going to hell, why don't you close up shop and eliminate the agony of a slow death?"

It's strange, but about 75% of the people in our business are full of gloom and foreboding and how some of the salesmen expect to do business or have the customer make a commitment when they feel as they do, is beyond me. They don't have to say anything verbally—their thoughts do it subsconsciously. Net result—no business!

Would like to make a little bet with anybody reading this, that if each security and/or investment house would call a sales meeting of everyone in the office and tell them now's the time to buy stocks and say that you want everybody to make at least 10 calls a day, you'll see the difference. Have every salesman make a daily report for one week stating how many calls they have made in person and on the telephone. How the hell can you do anything sitting around on your "big cans" with a long face and kidding yourself that "tomorrow things will be better" and you will work then.

Most salesmen have the cockeyed idea that so long as they are working on commission only, that the boss has no "bellyache" if they don't do any business. Just try apportioning the percentage of overhead to each man in your organization and show him what it costs to maintain lounging space and reading room facilities for his convenience.

True — most salesmen will say their customers are locked in at higher prices—well, if the security they are locked in on has any merit at all, you owe it to them to average them down in price. If it hasn't any merit and looks as though it will never come back, you owe it to them to sell them out—let them take their loss and forget it — and put them into something where they will have a chance to recoup at least some of it.

Don't get the idea that everything's going to hell. You have had and are developing a more planned economy every day and with a $250 billion debt and deficit spending, how in the hell can you have a depression? If you do, God help us all—there will be nothing left. Money will be worthless, too.

May I suggest that if you are interested in a stock and the distance is not too great, that you invest a little money, take your salesmen, go through the plant, meet the management and get a better idea of what is going on.

What everyone in our business needs most of all is a different outlook. It's just as easy to have as a bad one. Let me give you my mental picture of the daily procedure in the average brokerage office:

No. 1. The salesmen come down at 9 o'clock, then they read the paper for an hour — then they have coffee, then they decide whoever they were going to call the night before is out to lunch or not in his office—by that time it's noon and they go out to lunch.

No. 2. In the interim they are looking at the Dow-Jones averages and if they're off 10 cents, they are afraid to call anyone.

No. 3. Then, after lunch, they will feebly make one or two telephone calls with their fingers crossed, hoping the customer is not in. Then about the time to go home, they get full of ambition and make a couple of calls and then say to themselves, I'll sure work tomorrow! This goes on and on, day after day and that's why the market is in the doldrums!

No. 4. Salesmen instead of working in the securities business are trying to think of 40 kinds of deals outside of their business where maybe they can make some quick money. Well—it just isn't done without work.

The biggest percentage of them are lazy and the sooner they wake up to the fact that it's a buyer's market in securities, as well as other things, they will find out there is plenty of business to be had if they go out after it.

The banks as well as individuals are bulging with cash. There are many opportunities for trades wherein salesmen can increase people's income as well as give them price appreciation—but if you ask the average salesman what to buy, he will say "I don't know—wait—I think the market is going lower."

WM. A. SPANIER,
President,
Bennett, Spanier & Co.

Chicago, Ill.
March 1, 1949

Exchange Chess Match Ends in Draw

The second International chess cable match between teams representing the New York Stock Exchange and the Amsterdam Stock Exchange ended early Sunday morning with a tie score of 5-5. The match which broke all records for continuous play in international chess competition began Saturday, March 5, at 10 a.m. Moves were teletyped by RCA.

The New York Exchange's team was co-captained by I. Kashdan, of Jacques Coe & Co., International Grand Master, and E. Schuyler Jackson, of Bacon, Stevenson & Co., former U. S. Amateur Champion. Other members of the team included Albert Pinkus, Troster, Currie, & Summers; Charles Stewart, G. H. Walker & Co.; Jacob Menkes, Wood, Walker & Co.; Herbert W. Marache, Granbery, Marache & Co.; Robert H. Cohen, New York Stock Exchange; Sol Ranheim, Sulzbacher, Granger & Co.; John Erdel, Hirsch & Co.; H. Wallace Cohu, Cohu & Co. Alternates were David Murray, Wood, Walker & Co. and Julius Hallgarten, Hayden, Stone & Co.

The Amsterdam team comprised of: Th.D. van Scheltinga, Amsterdam Stock Exchange; U. Crabbendam, Broekman's Commissie Bank; F. van Setten, Amsterdam Stock Exchange; N. Luza, Amsterdamsche Bank; H. Kleefstra, Twentsche Bank; C. L. C. Dekker, Brom & Co.; J. J. van Weering, Amsterdamsche Bank; B. H. J. Schumann, Hope & Co.; J. Ph. Grondman, J. Ph. Grondman; W. van der Werff, C. J. Schoo. Reserves were: J. Kempes, Twentsche Bank; G. A. Braun, Labouchere & Co. L. W. Leyns was non-playing match captain.

H. Helms, international chess authority, adjudicated unfinished games and represented the Amsterdam team in New York.

NYSE to Close on Saturday During Summer Months

The Board of Governors of the New York Stock Exchange has decided that the Exchange will be closed on Saturdays commencing Saturday, May 28, and extending through Saturday, Sept. 24. Last year the Exchange was closed on Saturdays during the same four months.

Bill to Grant Broader Savings Bank Investment

Measure introduced in N. Y. Legislature, sponsored by Supt. of Banks Bell, would permit limited investment outside legal list.

A bill sponsored by Elliott V. Bell, Superintendent of Banks in New York State, was introduced in the New York Legislature on March 8. The measure aims to broaden the investment field of the State savings banks by permitting them to purchase limited amounts of corporate securities, not now on the "legal list." According to the terms of the bill, a savings bank would be permitted to invest an amount, not to exceed its surplus accounts, in securities or in housing developments which the present banking statute prohibits. If used to its full extent, this would mean that about $800 millions would be available to the banks in making investments not now on the "legal list."

Elliott V. Bell

Explaining the provisions of the bill, Supt. Bell stated:—

"The bill would restrict investment in securities not on the legal list to obligations with a maturity of not less than two years from date of issue. This would have the effect of excluding savings banks from making commercial loans which lie properly within the sphere of commercial banks.

"The bill also would restrict savings banks' investment in this type of issue to not more than 5% of the liabilities of any one borrower or, in the case of one borrower, to not more than 2% of the savings banks' assets.

"Proposals have been made in savings bank circles for several years now for doing away with the legal list principle and the adoption of the so-called prudent man rule. I believe the approach taken by this bill to be sounder. The legal list is retained for those savings banks which look to it to lay out the boundaries for their security investments. On the other hand, those savings banks that are able to find satisfactory securities outside the legal list could do so, provided they stay within the surplus limitation.

"Investments by savings banks in housing projects are included along with the non-legal list securities in the surplus limitation. To the extent that any savings bank uses the new investment authority to buy securities its ability to invest in housing under this statute will be reduced by that amount, and vice-versa."

Court Enjoins NASD in Otis Case

Cyrus Eaton of Otis & Co. hails ruling as putting stop to NASD Executive Director's innuendoes and insinuations against Otis & Co.

The U. S. District Court of Washington, D. C., on March 7 enjoined the NASD from implying that Otis & Co. has been or will be disciplined in the Kaiser-Frazer case, and denied the SEC's motion to prevent Otis & Co. from taking the depositions of NASD personnel.

Cyrus Eaton of Otis & Co. made the following comment regarding the court's ruling:

Cyrus S. Eaton

"There is nothing in Otis & Co.'s 50-year history in which we take greater pride than our refusal to join in a conspiracy with the Kaiser-Frazer management, their financial adviser, First Boston Corporation, the SEC and its subsidiary the NASD, to foist on the investing public at $13 a share the fraudulent stock of Kaiser-Frazer, which is now selling at half of that price.

"This should put a stop to the grand tour that Wallace Fulton, Executive Director of the NASD and spokesman for the conspiracy, has been making for the purpose of circulating innuendoes and insinuations against Otis & Co. Fulton has been going from city to city, and holding lavish cocktail parties and dinners, at which he has been intimating that Otis & Co. has been or will be disciplined. The Fulton soirees have been paid for out of the heavy dues which NASD members are assessed. As one of the NASD's largest members, Otis & Co. is one of the biggest dues payers, and has therefore been placed in the position of having to subsidize attacks on itself."

Economist Sees Lower Interest Rates Ahead

Speaking at a clinic in Chicago of the Mortgage Bankers Association of America on Feb. 24, Willis J. Winn, Instructor in Finance at the University of Pennsylvania, expressed the view that there will be a downward pressure on interest rates in the months ahead.

"The current outlook for interest rates," Mr. Winn stated, "focuses on two questions — why rates firmed between 1946 and 1948 and what have been the true abnormalities in the behavior of rates in the past.

"The character of the demand and supply for funds in the early postwar period was not unlike the demand and supply factor present in other fields. The expansion and deferred replacement demands of industry for both fixed and working capital was influenced by price demands as well as by the growth in volume of business. These forces were supplemented by speculative demands of borrowers to meet current and future requirements at the prevailing level of rates and an investor run on the Federal Reserve interest peg in anticipation of substantially higher rates.

"The current volume of saving and the accumulated cash balances were not sufficient to meet all the demands and offset the credit restrictive measure adopted in the 1946-48 period. Thus interest rates firmed. There are several indications that many of these factors contributing to the development are no longer present.

"An examination of the behavior of rates through the years shows that the most striking abnormality in rates in the recent past has been the large differential between yields on short and long-term obligations. This differential has been narrowed in the 1946-48 period. Moreover, the large increase in the short-term rates has been accomplished with a minimum of market disturbance.

"The popular contention that the level of rates is still abnormally low is subject to question when the historical record encompasses more than the last 25 years."

Is Sterling Devaluation Necessary?

By PAUL EINZIG

Commenting on pressure for sterling devaluation, Dr. Einzig contends devaluaton would not remedy Britain's dollar deficit, but is likely to intensify it by raising value of Britain's imports. Sees little prospect sterling devaluation would increase British exports to U. S. or improve British dollar position.

LONDON, ENGLAND—As far as is known, there is only one point in respect of which Marshal Stalin and Mr. Snyder are in agreement—that sterling should be devalued. But while Stalin expressed his opinion privately to a group of British Members of Parliament visiting the Kremlin, Mr. Snyder stated his opinion before Congress, thereby securing for it worldwide publicity. Even though he did not refer to Britain specifically, it was quite obvious that he had primarily Sterling in mind. He declared that the matter should be discussed in great secrecy with the governments concerned. Judging by past experience, however, official quarters in London have no illusions about the likelihood of such secret talks remaining secret for very long.

Dr. Paul Einzig

In Mr. Snyder's view it is to the interest of the United States that the European currencies should be devalued, because it would enable the countries benefiting by Marshall Aid to improve their trade balance in relation to the dollar area, and it would therefore reduce the extent to which these countries would need American financial assistance. Beyond doubt, if it were certain or even probable that a devaluation of Sterling would reduce Britain's dollar deficit, the case for a devaluation would be unanswerable, not only from an American point of view, but also from a British point of view. But in reality it is doubtful whether a devaluation would produce such effect.

It is true, in some lines the British prices quoted in the United States and in Canada are too high, so that a devaluation of, say, 25% might result in an increase of dollar-earning exports in those lines. But against this it would be necessary to consider the cut of the dollar proceeds of all British exports by 25%. Goods which can be sold in the dollar area on the basis of the present dollar-Sterling parity would be sold 25% cheaper. Would the increase of the volume of British exports to the dollar area compensate Britain for this loss? Nobody could tell for certain, but the view held in official British quarters—which are, after all, in a better position to judge than anybody else—is that the answer is in the negative. So more likely than not the net result of a devaluation would be a decline of dollar earnings, in spite of the increase of the volume of exports to the dollar area.

One of the arguments for a devaluation of Sterling, if accompanied by an all-round devaluation of soft currencies, is that it would tend to divert British exports from soft currency countries to the dollar area. At present it is easier to export to soft currency countries, precisely because their currencies are overvalued, through their internal price levels being high in relation to the British price level. British exporters find it easy to sell in such countries at a profit. So long as the supplies of exportable British goods remain inferior to the demand, higher exports to soft currency countries means less exportable supplies available for the dollar area. This may have been a very important factor during the last three years, but it is becoming rapidly less and less important, as and when the sellers' market gives way to a buyers' market. Soon there will be enough goods in most lines to satisfy demand both in soft currency countries and in the dollar areas.

The main obstacle to a substantial increase of exports to the United States and Canada is not the level of British prices, nor the inadequacy of the volume of goods offered in those markets, but the unwillingness or inability of the North American Continent to absorb more British goods. Britain does not produce the goods needed there, or they can be produced better locally, or their import is prevented by tariff wall, visible or invisible. In face of this obstacle a devaluation of Sterling would be of little practical use.

Admittedly, a devaluation would tend to discourage British imports from the dollar area, and to that extent it would tend to improve the British dollar position. But the same result could be achieved by means of discriminatory import restrictions. It is true that practice has been outlawed by various agreements. But the United States Government has agreed not to insist for the present on the rigid enforcement of those provisions. The view is held in London that a little more elasticity in their application might go some way toward reducing Britain's dollar deficit. It is true American opinion dislikes quantitative discrimination. But the alternative suggested by Mr. Snyder is competitive currency depreciation, a practice which was strongly condemned by American opinion throughout the '30s. The choice is evidently between two more or less equally undesirable practices. It is a matter of opinion which of them is the worst evil.

From the point of view of the British domestic economic position a substantial devaluation would mean either a considerable increase of food subsidies or a considerable increase of prices. Should the devaluation be allowed to produce its natural effect on the British price level, the adjustment of wages would take place very quickly, and British exporters would soon lose the advantage of being able to quote lower prices. Should the rise of prices be prevented by an increase of subsidies—a devaluation of 25% would mean additional subsidies of at least $500,000,000—the situation would become increasingly artificial, and the day when controls could be removed would become more remote than ever. It is no wonder Sir Stafford Cripps is against devaluation.

Trade Board Member

CHICAGO, ILL.—Joseph A. Fagan, partner of Daniel F. Rice and Company, has been elected a member of the Chicago Board of Trade.

Charges Republicans Try to Scare Nation by Depression Talk

Attorney General Tom C. Clark, in Newark address, assails Truman opponents as prophets of gloom and preachers of pessimism. Sees no impending depression.

In an address at the Jefferson-Jackson Day Dinner in Newark, N. J., on Feb. 24, Attorney General Tom C. Clark charged the Republicans with spreading fear of business depression and that their "dismal predictions frighten timid employers," who begin laying off workers.

Tom C. Clark

"It is our duty," said Attorney-General Clark, "not to let the people forget the Republican faults and errors. Every man and woman in our land should know that at this very hour some in the opposition party in and out of Congress are busy trying to frighten the nation with reckless talk that a depression has hit us—merely because the price of meat and the price of eggs have dropped so that more housewives can provide better and more nourishment for their families. Too long have the prices been too high.

"Now, however, when they begin to come down there are some prophets of gloom who immediately begin predicting that we are heading into a depression. These dismal predictions frighten the timid employers and they begin laying off workmen, which further contributes to the seasonal unemployment situation. This in turn further needs the grist of the prophets of gloom.

"Those apostles who would have you believe that the profits of the large corporations have dwindled so extensively that they are compelled to resort to mass layoffs of their employees should be exhibited in their true greedy colors.

"Those preachers of pessimism who would create fear among the workers of the nation by predicting mass unemployment are doing harm to the country. I think there is nothing from which Communists at home and abroad derive more joy—more solace—more hope, than from the fear-mongers in our midst.

"Panic - provoking statements about our national economy are more malicious because they are utterly without basis in fact. The proof of the dishonesty of this economic scare-campaign is the statistics available to anyone. A simple inquiry at official sources would have revealed the fact that there were over 300,000 more persons employed in January of this year 1949 than in the same month of 1948. A further question would have disclosed that there were over 100,000 more persons employed in January, 1949 than in any other January in the nation's history.

Some corporations have been shedding Hollywood tears, in the name of private enterprise, claiming that they suffer because of interference by your Federal Government. Statistics upon which business and government reports rely show that of 14 major corporations, representative of a cross-section of our economy, earnings for the year 1948 were 30% greater than the previous year, aggregating approximately $1,348,000,000. They surely should dry those tears.

"In 1948 the corporate profits in this country, after taxes, were more than $20 billion—the highest of all time.

"In 1948 the total personal income passed $213 billion—the highest of all time.

"In 1948 the total national income reached $224 billion—the highest of all time.

"In 1948 there were around 60 million civilians employed in industry and agriculture—the highest of all time.

"Now it is obvious from those facts that we have obtained a degree of prosperity heretofore unknown in the world. It is only natural that some adjustments must take place. But it is very difficult to picture the conditions of a depression out of such statistical material as this.

"There are other reasons, such as Federal Deposit Insurance and unemployment compensation, which make a depression most unlikely. But the strongest asset we have is a sound and prosperous country itself. Yes, we will run into times when profits will get too high, and when inventories will get too large, and from those conditions some readjustments must inevitably follow. But by and large the basic wealth of our nation remains as a source of enduring confidence."

NASD Committees Are Announced

Committees of the National Association of Securities Dealers, Inc., were announced by Clement A. Evans, Chairman. They are as follows:

Executive Committee: Clement A. Evans, Chairman, Clement A. Evans & Co., Inc., Atlanta; T. Jerrold Bryce, Clark Dodge & Co., New York City; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven, Conn.; Francis Kernan, White, Weld & Co., New York City; G. M. Phillips, Caldwell, Phillips Co., St. Paul, Minn.; John O. Stubbs, Whiting, Weeks & Stubbs, Boston; John J. Sullivan, Bosworth, Sullivan & Co., Denver; Wallace H. Fulton, NASD, Washington.

Finance Committee: Francis Kernan, Chairman, White, Weld & Co., New York City; Warren H. Crowell, Crowell, Weedon & Co., Los Angeles; Clement A. Evans, Clement A. Evans & Co., Inc., Atlanta; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven; Max J. Stringer, Watling, Lerchen & Co., Detroit; Wallace H. Fulton, NASD, Washington.

Business Conduct Committee: John O. Stubbs, Chairman, Whiting, Weeks & Stubbs, Boston; Sampson Rogers, Jr., Vice-Chairman, McMaster Hutchinson & Co., Chicago; Eaton Taylor, Dean Witter & Co., San Francisco.

Legislative Advisory Committee: Howard E. Buhse, Chairman, Hornblower & Weeks, Chicago; Philip L. Carret, Gammack & Co., New York City; Russell I. Cunningham, Cunningham & Co., Cleveland; Clement A. Evans, Clement A. Evans & Co., Inc., Atlanta; Waldo Hemphill, Waldo Hemphill & Co., Seattle; S. Davidson Herron, The First Boston Corp., Pittsburgh; Wallace H. Fulton, NASD, Washington; Herbert F. Boynton (Advisory), Laird, Bissell & Meeds, New York City.

Uniform Practice Committee: Harold C. Patterson, Chairman, Auchincloss, Parker & Redpath, Washington; George L. Morris, Vice-Chairman, Hornblower & Weeks, Philadelphia; William H. Agnew, Shuman, Agnew & Co., San Francisco; Joseph L. Morris, Robinson-Humphrey Co., Atlanta; Theodore F. Rudell, Shields & Co., New York City; Gordon Scherck, Scherck, Richter Co., St. Louis; Reuben Thorson, Paine, Webber, Jackson & Curtis, Chicago; Thomas E. Barrett, Jr., Secretary, NASD, Washington.

Quotations Committee: Bradford W. Shaw, Chairman, Swift, Henke & Co., Chicago; Ernest E. Blum, Brush, Slocumb & Co., San Francisco; Laurence B. Carroll, Prescott, Wright, Snider Co., Kansas City; John S. French, A. C. Allyn & Co., Inc., New York City; Harry B. Snyder, Yarnall & Co., Philadelphia; George H. Soule, Secretary, NASD, New York City.

Investment Trust Underwriters Committee: Edward B. Conway, Chairman, F. Eberstadt & Co., Inc., New York City; Harold W. Cameron, Pacific Northwest Co., Seattle; Chas. F. Eaton, Jr., Eaton & Howard, Inc., Boston; Woodford A. Matlock, Broad Street Sales Corp., New York City; George S. McEwan, Paul H. Davis & Co., Chicago; Harry I. Prankard, Lord, Abbett & Co., New York City; Henry T. Vance, Vance, Sanders & Co., Boston.

Special Research Committee: W. Yost Fulton, Chairman, Maynard H. Murch & Co., Cleveland; N. Earle Appleton, Pearson, Erhard & Co., Inc., Boston; Peter Ball, Ball, Burge & Kraus, Cleveland; James Coggeshall, Jr., The First Boston Corp., New York City; John F. Fennelly, Glore, Forgan & Co., Chicago; Robert W. Baird, Robert W. Baird & Co., Milwaukee; H. H. Dewar, Dewar, Robertson & Pancoast, San Antonio; Ralph E. Phillips, Dean Witter & Co., Los Angeles.

Public Relations Committee: Robert G. Rowe, Chairman, Stroud & Co., Inc., Philadelphia; Henry G. Ritter, 3rd, Ritter & Co., New York; L. Raymond Billett, Kebbon, McCormick & Co., Chicago; John R. Longmire, I. M. Simon & Co., St. Louis.

Traders Committee: Jesse A. Sanders, Jr., Sanders & Newsom, Dallas; Dayton P. Haigney, Dayton Haigney & Co., Boston; Clair S. Hall, Jr., Clair S. Hall & Co., Cincinnati; George J. Muller, Janney & Co., Philadelphia; Harry L. Nelson, Blyth & Co., Inc., Chicago; Robert D. Diehl, Dempsey-Tegeler & Co., Los Angeles.

Railroad Advisory Committee: Pierpont V. Davis, Chairman, Harriman Ripley & Co., Inc., New York City; Charles L. Bergmann, R. W. Pressprich & Co., New York City; George W. Bovenizer, Kuhn, Loeb & Co., New York City; Rowland H. George, Wood, Struthers & Co., New York City; John F. B. Mitchell, Wood, Walker & Co., New York City; Orrin G. Wood, Estabrook & Co., Boston; Jean C. Witter, Dean Witter & Co., San Francisco.

Foreign Securities Committee: Jean Cattier, Chairman, White, Weld & Co., New York City; John M. Walsh, Harriman Ripley & Co., Inc., New York City; Carl Marks, Carl Marks & Co., Inc., New York City; Henry Stravitz, Swiss American Corp., New York City.

Special Committee to Study the Over-the-Counter Market: Philip L. Carret, Chairman, Gammack & Co., New York City; Ralph S. Longstaff, Rogers & Tracy, Inc., Chicago; R. Conover Miller, E. W. & R. C. Miller & Co., Philadelphia; Walter Murphy, Jr., Walter Murphy & Co., New York City.

With Newburger, Loeb

Newburger, Loeb & Co., members of the New York Stock Exchange and other Exchanges, announce that Hampton S. Sealy, Registered Representative, has joined their organization at the main office, 15 Broad Street, New York City.

Securities Salesman's Corner

By JOHN DUTTON

Did you ever hear the story of the fellow who couldn't walk across a board that was a foot wide when it was high in the air between two 10-story buildings, but he had no trouble doing it when it was only a foot off the ground. It is an old one, but it is a fact that our peculiar mental blocks are our own greatest obstacles. Nothing exists except in our minds. Many salesmen in the securities business today are building mountains out of molehills—the more you dwell upon these "mental hazards" the more formidable they become. If you cast away doubts and put positive thoughts in your own mind—others will think the same way you do.

Regarding mountains out of molehills, the majority of people are not nearly as concerned about the long-range economic future as those of us who are in the investment business seem to feel about it. The majority of people are too busy working, earning, doing and creating, to give much of their time to worrying about such things. Most of the people in the investment business spend too much time thinking about what is going to happen. Some salesmen today are actually hesitant about going out to see people and talk with them in a normal, positive manner about investments. Yet the public in general have the opinion that securities are low in price—they are not pessimists—it is the salesmen in many instances that are killing off their prospects with the most deadening kind of negative thinking.

Mental block number 1: People are not in a mood to buy. Of course, they are not in the mood, if we think so even before we call on them. Why not give the other fellow the benefit of the doubt? More than likely he may be thinking—"stocks look like a buy to me, I wish someone would come along and give me some encouragement and a few suggestions." The way YOU THINK is the way HE WILL THINK.

Mental block number 2: People have losses, they don't want to talk to me now. Of course they won't buy more if we feel that way. Of course they won't sell out the non-dividend payers that have an unfavorable outlook, and put the money into something that pays a dividend, and that can help them recoup some of their loss and possibly all of it—unless we SHOW THEM WHY THEY SHOULD DO SO. What a wonderful opportunity to help our customers and others as well, instead of leaving things go from bad to worse. Why not go over your acccounts, get busy and tell them how they can do this and HOW to go about it? Pick out a good situation and replace the ones that are worrying you and your customer with something that will give them some income and a better chance of recovery. The sooner you do it, the BETTER. It is all in the mind anyway. Whether your customer holds stock A that is down, or has the same amount of dollars in stock B that can come back, is all a relative thing. Take action—do something about it—that is the only way to solve any problem, and it will put you back in business again. The sooner your customer gets out of his headaches the better it is for you. A dog stock will haunt you both until he sells it—afterward he will forget it.

Mental block number 3: Why call on new people—it is a waste of time? That is the biggest mistake anyone can make RIGHT NOW. I know of a case just last week where a certain salesman with his chin up walked right into an office of a man he never saw before, who was an exceptionally large investor, and he spent over an hour with him. His prospect was very receptive. A large block of securities is now before this investor—and he is considering making a purchase. Another case: A salesman with his head working as well as his legs, sent out a thousand postal cards with a short story about a high yielding low priced stock, to a selected group of prospects who were in a line of business allied to that in which the company that he was recommending was engaged. Several telephoned his office for more information and he sold them over the telephone. This happened within the last two weeks—PEOPLE ARE NOT IN THE MOOD TO BUY—MAYBE NOT, BUT THIS DOESN'T LOOK LIKE IT TO ME.

Advertise, get a new situation, work CONSISTENTLY, see 10 qualified people a day for the next six months, talk securities to enough people, talk about the good buys that you can offer, the low prices today, that buying times are not when markets are boiling but when they are low and inactive (it is the truth, isn't it?). Throw away the mental blocks, forget the pessimism, live for today and work; TOMORROW will take care of itself, of that we can be SURE, if we do these things NOW—TODAY.

[Attention is called to the series of lectures on INVESTMENT SALESMANSHIP sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the "CHRONICLE." The initial lecture, by Alfred C. Neal, Vice-President and Director of Research of Federal Reserve Bank of Boston, was given in the "CHRONICLE" of March 3 (page 4). The second in the series, by Wallace G. Strathern, Sales Training Executive for Eastern Gas & Fuel Co., and President of National Society of Sales Training Executives, appears on page 4 in today's issue.—EDITOR.]

Federal Reserve Eases Instalment Credit Rules

Amends Regulation W by reducing down payments on all products, except automobiles, and expands limits on payment period.

The Board of Governors of the Federal Reserve System announced on March 3 modification of Regulation W, effective March 7, making the maximum maturity uniformly 21 months, instead of 15 to 18 months, on all extensions of consumer instalment credit, and reducing down payments on furniture, appliances, etc., from 20% to 15%, while retaining the 33⅓% down payment on automobiles.

This modification, says the Reserve Board, is based on continuous study of the operations of the Regulation since it was reinstated last September, and on the experience of Federal Reserve Banks and their branches in its administration in the field.

In recommending last summer that Congress authorize reinstatement of the Regulation, the Board stated that the authority would be used flexibly and that the Board would be ready at all times to tighten or relax the terms in accordance with the objectives of the authority and with a view to sound credit conditions. The amendment also contains two minor modifications of a technical nature.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Changes in Regulation W, which eased restrictions on instalment buying and probably forecast further alterations in the credit structure to combat deflationary trends, had a salutary effect upon the government market. . . . Prices of both the eligibles and taps moved up to or through previous highs while the intermediates were in demand. . . . Official recognition that the inflation spiral has been retarded, if not broken, through the action of the monetary authorities in making loans easier to create should not be adverse to the government security market. . . .

Considerable buying has been going on in the longest eligible taxables since changes were made in Regulation W, with the 2½% due Sept. 15, 1967/72 moving past the 2¼% due 1956/59 (in prices) for the first time since Nov. 25, 1947. . . . Before that in an up market the 2½s regularly sold higher than the 2¼s. . . . The movement of the 2½s ahead of the 2¼s has some technical followers of the market very bullish on the bank 2½s. . . . After the middle of the month income tax payments should cease to be a money market factor and this is likely to result in more activity in the bank issues. . . . Savings banks continue to dominate the tap market. . . .

EASIER CREDIT VIA REGULATION W

Although Regulation W does not apply directly to the government securities markets, indirectly it is one of the forces that are operating to influence the future course of the money markets, which in turn affects the action of Treasury obligations. . . . The changes in Regulation W make it easier for individuals to obtain loans and any increase in loans means an increase in bank deposits. . . . During periods of inflation more loans and larger bank deposits, which are purchasing power, are not desired or needed. . . . Thus, since the alterations in Regulation W are being made in order to create loans, deposits and purchasing power, it would seem logical to conclude the monetary authorities are not concerned about the forces of inflation or they would not have acted to ease the terms for instalment buying. . . . The forces of inflation are not defeated or fought by other inflationary measures, which is what the changes in Regulation W are. . . .

DEFLATION FEARS BESET ADMINISTRATION

The Administration and their economic advisors appear to be so concerned about inflation and the need to combat it they are knocking themselves out talking about the powers that should be given the President in order to control it. . . . This seems to be the lip service angle, because politicians always talk about inflation and how they hate it and want to prevent it, but do very little about it, because they have no fear of rising prices. . . . What they are mortally scared of is deflation and there is no doubt about that, because dropping prices and unemployment can mean the end of Administrations and politicians. . . .

Accordingly, the action of the Federal Reserve Board in making less restrictive credit for instalment purchases, is moving to combat deflationary forces, which if they persist or worsen will bring about, at a later date, more ease in the money markets. . . . Reserve requirements and stock exchange margin regulations are among the other factors that can be changed. . . . Because the monetary authorities are acting to retard deflationary forces (and it should be remembered that actions speak louder than words) this will eventually result in greater ease in the money markets, which is the same as strengthening the demand side for government obligations. . . . This should not be bearish on prices or yields of Treasury securities. . . .

FREE MARKET IN TREASURIES AWAITED

Considerable discussion is going on about what is likely to be done when the opportunity presents itself to free short and intermediate maturities of Treasuries from official support by the authorities. . . . Indications are that the Treasury is on the cool side when it comes to relinquishing any support of the government security market whether it be the shorts or the longs. . . . The Federal Reserve Board, according to reports, would welcome the opportunity to establish a free market for short- and middle-term maturities of Treasuries. . . . There seems, however, to be complete agreement by both the Treasury and the Board that the 2½% rate will be protected under any circumstances. . . .

A return to normal competitive business conditions, according to some, should be accompanied by a free competitive market in the short and intermediate end of the government list. . . . The Federal Reserve Board, it seems, would like to have demand and supply forces come into their own in the shorter maturities of Treasuries. . . .

POSSIBLE IMPACT ON MONEY RATES

Assuming there was no official support in the market for the shorts and intermediates and demand supply forces were the deciding factors on prices and yields, would this necessarily mean a 1⅜% rate for certificates? . . . Although the market for bills, certificates, notes and short bonds would be free from official support, and demand and supply would dictate prices and yields, the authorities could influence the demand side of the equation through operations directly or indirectly in the money markets so that higher yields would not result despite the absence of official support. . . .

A return of free and competitive conditions in the near-term end of the government list would most likely come during the readjustment period. . . . This would be after the inflation and beyond doubt there would be less restrictions on credit which should be favorable to prices and yields of all government obligations. . . . If enough demand were created by the monetary authorities, yields of bills and certificates might even decline in a free market. . . .

REFUNDING POLICY

Because of the down-trend in economic conditions, it is believed in some quarters that refunding operations of the Treasury will be tailored to suit the needs of the commercial banks so as not to decrease deposits. . . . This could mean longer maturities and higher coupon rates.

Curb Clearing Ass'n Reappoints Lowenfels

Bertram H. Lowenfels was reappointed President of the New York Curb Exchange Securities Clearing Corporation for the next year at the regular meeting of the board of directors held March 3. A partner in the firm of Richard K. Kaufman, Alsberg & Co., Mr. Lowenfels was named President of the Curb Clearing Corporation last month to fill a vacancy caused by the resignation of Fred C. Moffatt.

Andrew Baird, a partner in Josephthal & Co., was elected a director of the corporation to fill an existing vacancy and to serve until 1952.

David U. Page was reappointed Vice-President, James A. Corcoran Vice-President, Wm. B. Steinhardt Secretary and Treasurer, and C. E. Sheridan Assistant Secretary. Mr. Moffatt was named Assistant Treasurer.

Mr. Corcoran, Mr. Moffatt, Mr. Page and Mr. Steinhardt were appointed members of the Executive Committee to serve with the President for the ensuing year.

Robert A. Kugler, Mr. Lowenfels and Mr. Steinhardt were reelected directors to serve until 1952 at the annual meeting of stockholders of the corporation held last Wednesday, March 2, 1949, it was announced.

Geo. Weiss Director

Election of George Weiss, a partner of Bache & Co., New York City, as a director of United Stores Company, has been announced. United Stores owns substantial interest in McCrory Stores Corporation and McLellan Stores Company.

George Weiss

Philadelphia-Balt. Exchange Merger in Effect

The merger of the 200-year-old Philadelphia Stock Exchange and the century-old Baltimore Stock Exchange became effective on March 7, when formal operations of the Philadelphia-Baltimore Stock Exchange began in Philadelphia. As already indicated in previous issues of the "Chronicle," seventeen members of the former Baltimore Stock Exchange will operate through the present facilities of the Philadelphia Exchange, and an office in Baltimore has been set up to link Baltimore members with the trading floor. Through establishment in Baltimore of a local branch of the Philadelphia Stock Clearing Corporation, Baltimore members will have the same facilities for clearing transactions that are available in Philadelphia. Teletypes in the offices of the Baltimore members will click off quotations as they appear on the Philadelphia floor.

Wm. K. Barclay, Jr.

Twenty-seven security issues previously listed on the Baltimore exchange have been approved for listing by the merged organization. They are: Arundel Corporation; Atlantic Coast Line Company; Atlantic and Danville Railway Company; Baltimore Transit Company; Davison Chemical Corporation; Eastern Stainless Steel Corporation; Eastern Sugar Associates; Finance Company of America; Interstate Bond Company; Maryland and Pennsylvania Railroad Company; Glenn L. Martin Company; Fidelity and Deposit Company of Maryland; Pennsylvania Water and Power Company; Phillips Packing Company, Inc., and Potomac Edison Company.

William K. Barclay, Jr., President of the new exchange, and a partner in Stein Bros. & Boyce, said the merger developed from "the unprofitable operation" of the Baltimore market. "There will be large economies in having a single floor of operations," he explained. "The merger also makes available to members a larger number and variety of issues and eliminates bids and offers originating from two points."

SEC Would Broaden "When Issued" Trading

The Securities and Exchange Commission on March 4 gave notice of consideration of a proposal to amend its Rule X-12D3-10 under the Securities Exchange Act of 1934, which is one of the several rules under Section 12(d) of the Act providing for the registration of unissued securities for "when issued" trading on a national securities exchange. The present rule, which is proposed to be amended, applies only to securities (other than warrants) to be issued in railroad reorganizations, and the general provisions relative to registration of other unissued securities are contained in other rules.

The primary effect of the proposed amendment would be to expand the coverage of Rule X-12D3-10 so that it would no longer be limited to securities to be issued in railroad reorganizations but would extend generally to securities (other than warrants) to be issued in other types of reorganizations, provided that the reorganization is carried out with court approval or under compulsion of a court order. Thus the rule if amended could afford an alternative basis for registration of securities to be issued under a court-approved plan of reorganization under Chapter X of the Bankruptcy Act or Section 11 (e) of the Public Utility Holding Company Act of 1935 or under a reorganization required by an anti-trust decree.

All interested persons are invited to submit data, views and comments on this proposal in writing to the Securities and Exchange Commission at its principal office, 425 Second Street, N. W., Washington 25, D. C. on or before March 21, 1949.

As We See It

(Continued from first page)

donged into the ears of the public, has tended to raise doubts of the situation rather than to allay fears, and some groups have been making the welkin ring with assertions that restrictions on consumer credit was in substantial part responsible for what was taking place. The Federal Reserve can scarcely be blamed for feeling a little uneasy in these circumstances. A "prosperity," bred and nourished upon artificiality, can easily be brought to an end by removal of even a part of its props. It has happened more than once before, and the officials responsible for Federal Reserve policy naturally do not wish to be caught in any such trap again.

Growing Uneasiness

The seizures of uneasiness which have been afflicting the Federal Reserve authorities have had other victims in and about Washington. It has from the first been more than doubtful if the President, with his "Fair Deal," could push the New Deal to still greater extremes through a Congress which only nominally owed allegiance to him. Day by day since this national legislative body has been at work in Washington, it has been growing more evident that fear of what is known as "deflation" (in the older and more accurate terminology, a recession or depression) was steadily replacing uneasiness about "inflation" (which today means, so far as it can be defined with any great degree of precision, a "boom" likely or certain to be followed by a "bust").

The result, or one of them, is that the "Fair Deal" in at least some of its aspects is being given a much more hostile reception than probably would otherwise have been the case. So far as can be judged at this distance, the yardstick with which proposals before Congress are now being measured is more the likelihood of their halting or forestalling a serious depression than of their preventing further inflation. This means that measures like higher corporate taxes and "repeal" of the Taft-Hartley Act are not faring well on Capitol Hill. What the situation will be like when the essentially inflationary measures included in the Fair Deal come to the fore remains to be seen. We venture the guess that to get a very favorable reception it must be made to appear that they would tend to stimulate activity rather than the reverse—and that there are a good many more in and out of Congress who now would tend to look a little more deeply into these questions than was the case six months ago.

Not the Cure

But be all this as it may, it is certain, or so we think, that no one of these alternative decisions or all of them combined—that is on questions which are now actively to the fore in Congress—are likely to make the difference between enduring, sound prosperity and perennial, if not continuous trouble. We do not undertake to say what the future months have in store for us. It may be that the downturn of the past few months will prove to be a minor interruption in a prolonged inflationary spiral which will continue after a short interruption until some later date when the fiddler will really present his bill; it may be that more basic readjustments will be necessary now than many believe.

What we are perfectly certain about in our own minds is this: An enduring era of really good times, and permanent avoidance of much further readjustments to a higher price level than now prevails, must await a far more drastic change in the attitude and behavior of government than is now in evidence or in apparent prospect.

What Really Ails Us

What really ails us is not restrictions on consumer credit, not fear of higher corporate taxes, not even uneasiness about labor legislation or an incredibly expensive system of expanded social security. All these things are important in one degree or another, some more so than others, but these are but a part of a much larger story. The fact is that for a decade and a half at least the whole tenor of politics in this country has been in the direction of making it harder and harder for businessmen to get ahead, and of rendering it less and less worth the effort.

This attitude and this policy have found expression in many enactments and many administrative programs. Some of the enactments now under scrutiny are among them, but when one takes the entire situation under scrutiny, it soon becomes evident that the proposals under advisement are suggestions which would make the situation worse instead of better, and that the aim of the opposition is essentially that of preventing this worsening of the existing state of affairs rather than any broad program of bettering it. Furthermore, many of the most seriously hampering programs and legislation are not even under study at the present time, and, what is more important, there is no evidence that they are likely to be in the foreseeable future.

No Solid Footing Here

Now, as already remarked, it may or may not prove feasible for business to pull itself out of the as yet limited setback of the past few months and to proceed on its rather feverish way for a good while to come—or it may not—but so long as the successful businessman must shoulder his own losses but turn over much the larger share of any profits he may make to government; so long as the capital markets are severely hampered—we had almost said hamstrung—by legislation and regulation; so long as the businessman must shoulder enormous costs arising out of unproductive labor at excessive wages and innumerable and expensive "fringe benefits"; so long as vastly expanded government organizations and activities oblige the businessman to pay almost incredible amounts in taxes before he can even count his profits; and so long as business must bear the thousand and one other burdens imposed by government in this day and time—and, in addition, operate within an economy whose basic monetary conditions are determined by crackpots and which may be changed overnight at the whim of politicians—so long as these conditions exist we shall never be able to feel that we are on solid footing.

Government Spending And Private Investment

(Continued from first page)

purpose here is to deal with the notion that government spending is a specifically sure way to economic salvation.

During the early 1930's, when political and intellectual circles were busy trying to assimilate and apply the doctrines of J. M. Keynes, there was much interest in the alleged "multiplier" effect of government spending. The guesses ranged all the way from one or two dollars up to as much as $12 or $15 of additional spending throughout the economy for every dollar of public money spent.[1] There was never a sound practical demonstration of the existence of a multiplier nor a valid statistical technique for measuring it. Acceptance of a hoped-for result came from endless repetition of vague generalizations which required no proof because none was ever demanded.

The Keynesian "multiplier" has largely disappeared now from the current discussion. The elaborate series of statistical data relative to various aspects and details of national income that are prepared by the Department of Commerce have provided an apparent factual approach which was lacking earlier. It is to these data that administrators and commentators now turn when they seek support for their faith in the efficacy of government spending.

The economic operations of the Nation may be expressed in terms of physical production or in terms of income and its application. Both sides of the shield are combined in the concept "Gross National Product or Expenditure." With the emphasis on physical production, gross national product is defined as the market value of the output of goods and services before deduction of depreciation charges and other allowances for the consumption of durable capital goods. With the emphasis on expenditure it is defined as the purchases of goods and services by consumers and government, gross private investment, and net foreign investment. Investment is treated as the purchase of goods for purposes other than consumption.

It is evident that the gross national product of any period, in market value terms, will be determined by the physical volume and by the prices at which the produced goods and services are valued. It is evident, also, that the concept assumes a balancing of production and expenditure accounts. From the standpoint of wellbeing, it is of primary importance that the product be large, as there would not be, otherwise, the material basis of a desirable living standard. But it is also highly important that there be a proper allocation of this product between consumption and capital uses, for, unless this occurs, the nation's capacity to create a large product would be undermined.

The components of gross national product, at the preliminary valuations for 1948, are shown in Table I.[2]

There is a ceaseless interaction of the economic operations that are measured by gross national product. Payments flow out to workers, investors, and others and flow back again in the expenditures for goods and services. In the course of this continual circuit, flow of income, materials are assembled, fabricated, transported, and delivered to consumers. Each stage in the process is at once the result of a preceding stage and the cause of an ensuing one. Government is a participant in this process, deriving funds from the private economy through taxation and returning them to private income through its expenditures.

The government purchases shown in Table I do not constitute the full measure of what is drawn off by taxation and put back by government payments. In addition to the purchases of goods and services, the other major forms of government expenditure are interest and transfer payments. The latter is defined as a payment for benefits not connected with current performance of services by the beneficiaries, illustrated by military pensions, old age benefits, and readjustment benefits to veterans. The funds collected in taxes and paid out as interest and transfers do not enter into gross national product, but they do become a part of personal income. The derivation of personal income from the overall concept of gross national product is shown in Table II. It is necessary to use 1947 figures as the full record for 1948 is not yet available.

The two forms of government expenditures that can be readily varied in accordance with changes in the spending policy are the purchases of goods and services and the transfer payments. Interest payments will remain fairly stable except as there are fluctuations in the amount of debt outstanding or in the rates of interest thereon.

If one were to judge by the volume of government purchases of goods and services, shown in Table I to total $35.3 billion in 1948, or 13.95% of gross national product, it might appear that public spending constitutes so important a segment of economic activity that any reduction in its volume would cause a decline of the total. And by the same logic, it might appear that an increase of government purchases would lead to a greater gross national product. During the war years government purchases were relatively and absolutely much larger than in 1948, for they constituted then as much 46% of the total. Whatever their amount and proportion of the total, these purchases represent a substantial volume of business for a wide variety of industrial concerns. Likewise, government transfer payments ran to substantial totals in 1947 and 1948, when large readjustment benefits to veterans were being paid. These benefits, and also the military pensions and the Social Security benefits are in some cases the sole support of the beneficiaries. No question is raised here concerning the propriety of such payments or of the validity of the obligation to pay them. It is rather a question of the effect of the total government spending, with particular reference to whether its increase can serve as a sustaining, or under some circumstances, as a stimulating influence.

In approaching this matter it is necessary to consider how government is to get the funds which are expended. There are two general sources. One is private income, which can be taken through taxation or through the sale of bonds to nonbank investors. The other is inflation, which can be accomplished through bond sales to the banking system or through the printing of paper money. The effects of government spending will vary according to the manner in which the funds are obtained.

To complete the record of tax sources, the disposition of personal income is given in Table III.

Transfer Character of Taxing and Government Spending

In the national income accounts all government receipts, whether from taxes or nontax transactions such as fees, fines, licenses and so on are grouped into the four major classes shown in Tables II and III, viz., indirect business tax and nontax liabilities, corporate in-

Table I

Components of Gross National Product or Expenditures, 1948

Components—	Billions	Per Cent of Total
Personal consumption expenditures	$176.8	70.00
Government purchases of goods and services (a)	35.3	13.95
Subtotal, consumption expeditures	212.1	83.95
Gross private domestic investment	38.8	15.35
Net foreign investment	1.8	.70
Subtotal, Investment	40.6	16.05
Grand total, gross national product or expenditure	$252.7	100.00

(a) Government purchases represent a consolidated statement of Federal, State, and local operations.

1 For one extreme guess up to a multiplier of 15, see *Hearings before the Committee on Ways and Means, 73rd Cong., 1st Session, on H. R. 5664*, pp. 75, 76.

2 Preliminary data for 1948 estimated by The Council of Economic Advisers, in *The Economic report of the President*, January, 1949, p. 99.

come taxes, social insurance contributions, and personal tax and nontax payments. These accounts are on a consolidated cash basis and therefore make no distinction between the receipts of general and trust funds.

The transfer character of taxing and spending is so clearly demonstrated by the national income data that there should no longer be any doubt or misunderstanding about it. The several types of receipts are shown in the above tables as deductions at one level or another of the derivation process. Thus taxation, as is well known, removes part of the income of the taxpaying citizens, leaving them less for their own use. Those who look no farther than this step often speak of taxation as a deflationary influence. The view is correct as far as it goes but it does not go far enough, since it is hardly conceivable that government will tax but not spend. Expenditures of the tax receipts puts them back into the national income stream, as wages and salaries, purchases of goods, interest, or transfer payments.

The same set of facts leads to the conclusion that the spending of tax receipts cannot be an inflationary influence. Purchasing power equivalent to that released by the public spending is taken out somewhere else by the taxing.

A different result would follow if the public spending were financed by funds injected from without by means of credit or currency inflation. To the extent of such financing there is no diversion of income from the people. The experience since 1929 indicates, however, that the inflation must be on a substantial scale in order to be effective. Despite the inflationary efforts of the 1930's, gross national product was not up to the 1929 level, even in 1940. It was recognized then that the inflationary program was relatively ineffective because the spending was not lavish enough. The war provided an opportunity of testing this theory. Inflationary spending was on the grand scale and gross national product was more than doubled from 1940 to 1944. But it is significant that after powerful inflationary forces had been set in motion, the subsequent decline of public spending for goods and services from $96.5 billion in 1944 to $27.9 billion in 1947 did not prevent a further substantial increase in gross national product during these years. The inflationary momentum now shows some signs of slowing down, although there has been but little net change, if any, in the direction of basic credit deflation. A leveling out would be reasonable, provided there be no large injection of fresh credit inflation.

The current fiscal program carries insistence upon budgetary balance, to be maintained by increasing taxes in such amount as may be necessary to cover the runaway spending. Assuming that the Congress would approve this course, its effect in terms of national income concepts would be to expand government purchases of goods and services, and government transfer payments, with a parallel reduction of corporate and individual savings. That is, it would enlarge consumption spending and diminish investment. It would be possible, by a sufficient increase of taxation, to close off completely the investment component of gross national product. Some advocates of the theory that "mass purchasing power" is the only important mainstay of the economy have taken positions on taxation which, if applied, would come perilously close to complete diversion of the investment fund to consumption purposes. Fortunately, such fantastic proposals have not been taken seriously and their inherent folly may be a sufficient protection against them.

Adequate Investment Flow Essential

No argument should be required on the proposition that the economy would collapse like a house of cards without an adequate investment flow for the maintenance and expansion of our capital, plant and equipment. The tax take of government—Federal, state and local—can become so heavy as to reduce this flow below safe levels. There is good reason to believe that the total take it at or beyond this safe margin now, and that the course most likely to precipitate the decline which so many are getting worried about is to increase the drain still more.

The added public spending made possible by the heavier taxes would provide an illusion of stability, and for individual firms it could be a boon by relieving them temporarily of production and pricing problems. But the market thus provided by government spending would be merely a substitute for the private market that was wiped out by the tax increase.

Among the legislative recommendations of the President's Economic Report was one to the effect that tax revenues be increased by $4 billions a year. The intention was that there be a permanent increase of this magnitude. Concerning the method of getting the new revenue the President said:

"The principal source of additional revenue should be additional taxes upon corporate profits, which can be applied without unduly interfering with prospects for continued business expansion and with assurance that profits, after taxes and dividends, will be sufficient for investments and contingencies."

The immediate reason for selecting higher corporation taxes is, of course, the large profits that have been reported by corporations. Reflection upon the interlocking character of the national income components will reveal that the final effect of a tax increase is much the same, regardless of the point of imposition. Under existing circumstances this impact would be upon the volume of funds available for investment.

The point at issue is whether or not there would still be enough, after the tax increase, for investment needs. Two passages from the report of the Council of Economic Advisers to the President, a report upon which his own recommendations were presumably based, are apropos:

The first statement is as follows: (Report, p. 64)

"Whether the financial needs of business can be satisfied in the future depends importantly on the level of profits. These are the immediate source from which the bulk of financial needs is met, and are also an important factor in the availability of outside capital, both loan and equity. Abundant profits during the past two years have stimulated and permitted business investment so large in proportion to total national income that it is probable that investment of a lower proportion in the future will meet our long-term peacetime needs. The general level of profits should continue to be ample so long as we are successful in maintaining high production and employment."

Just how a high level of production and employment is to be maintained without a proper flow of life blood into the productive plant is not made clear. Nor is there evidence that this flow has so fully supplied the body economic with red corpuscles as to warrant slackening off in the rate of investment. The relation of gross private domestic investment to gross national product in recent years has been as follows:

Year	Per Cent Investment to GNP
1942	5.8
1943	2.3
1944	3.0
1945	4.6
1946	12.6
1947	12.9
1948 (preliminary)	15.2

Here is the evidence of a substantial accumulated deficiency in capital formation which would run to many billions of dollars even for the few years covered. If the record were to be extended somewhat farther into the past the aggregate deficiency would be tremendous. The long history of capital formation which Dr. Kuznitz has compiled indicates that from 1869 to 1929 there was plowed back, on the average, about 15% of gross national product. If we are to maintain high production and employment, there should be regularly a plowing back of something like this proportion. The above figures show that the necessary percentage was attained in 1948. The last year prior to 1948 when this was true was 1929. It is certainly far from demonstrated that enough has been done to warrant curtailment of capital formation from now on.

The second statement is as follows (Report, p. 55):

"A more difficult question concerns the quality or condition of our present productive facilities. Whether they are now in better or worse condition than at some previous time, they are less modern and less efficient than they could be."

Here again we have an admission which undermines the force of the statement that we can afford to get along with a diminished volume of investment in relation to total product. In fact, the conclusions of the Council which provide support for the program of tax increase on the ground that it would be safe to establish the investment rate on a lower level relative to gross national product are not consistent with the positions taken with respect to actual capital needs. It is suggested, at one place in the Council's report, as a desirable goal that the output of the economy should increase by 3% per year (p. 52). As it happens, this is about the rate of annual growth actually achieved during the 60 years 1869-1929, when the average rate of capital formation was about 15% of gross product. Just how this rate of annual growth is to be maintained hereafter while reducing the capital investment on which growth so largely depends, the Council does not make clear.

Is Public Spending a Stabilizing Force?

It is often said, in support of the thesis that public spending is a stabilizing force, that when the people will not spend, then government must; and current developments are likely to be seized upon as providing the necessary evidence that the time is at hand. The national income data reveal that consumer spending has not quite kept pace with disposable income. Comparative figures for 1947 and 1948 are as follows:

Table IV

Disposable Income and Consumer Expenditures, 1947 and 1948

Category—	1947 (Billions)	1948	Increase
Disposable personal income	$173.6	$190.4	$16.8
Personal consumption expenditure	164.8	176.8	12.0
Percent of disposable income spent	94.3	92.8	

The degree of lag in spending behind disposable income from 1947 to 1948 was not great and it does not demonstrate as yet a definite trend. But the substantial rise of disposable income does show that consumer buying in 1948 was not relatively curtailed for lack of available purchasing power.

A reasonable explanation is, of course, that the prices of goods were too high. It is customary to shift the whole responsibility for prices to the credit inflation, of which we unquestionably have had a large dose. But it is impossible to deny that the bad price situation has involved a responsibility which must be shared by government, labor, and business. In all of these areas there have been elements of rigidity that have contributed to the maintenance of artificial prices and to the narrowing of the field within which genuinely free market conditions may be found.

Conclusions

The following conclusions appear warranted:

(1) Taxing and spending within a balanced budget are a substitution of a public for a private market for goods and services. The operation may be beneficial to particular firms and individuals who are thus relieved from the obligation to find realistic solutions for their problems but it affords no net advantage for the economy.

(2) The final impact of taxing and spending is upon the investment flow. From this viewpoint it is a substitution of consumption spending for investment spending. The capacity to produce will be undermined if the tax load reduces the available investment funds below the level of capital replacement and expansion required for satisfactory national growth. An increase in the aggregate diversion of private income through Federal, state, and local taxation, by whatever type of levy accomplished, would carry the total tax take into the danger zone and imperil the whole economy.

(3) The depressive effects of large tax levies on the incomes of the productive members of our society are worse for morale—the whole complex of attitudes toward work, saving, investment, and the economic outlook—than any stimulation that may be provided by greater public spending. A reduction of tax burdens would be a stronger and more lasting stimulant.

(4) Inflationary spending, on a large scale, can be, initially, very stimulating, but the effect wears off without a repetition of the dose, as is shown by the relative lag of consumer spending in 1948 by comparison with 1947. Moderate doses of inflation are likely to be ineffective because they can be counteracted by pessimistic viewpoints and depressive tendencies in the private economy. Repeated large doses would be disastrous.

(5) The wise course for government to pursue, in the interest of steady national growth and prosperity, is to be prudent, both as to the scope of public services and as to the application of funds in the performance of the services undertaken. Government cannot carry or support the economy; but the burden of government can be so great, however, as to wreck the economy.

Table II

Relation of Gross National Product, National Income, and Personal Income, 1947

Components—			Billions
Gross national product			$231.6
Less: capital consumption allowances			13.3
Equals: net national product			218.3
Less: indirect business tax and nontax liability	$18.5		
business transfer payments	.6		
statistical discrepancy	—3.3		15.8
Equals: national income			202.5
Less: undistributed corporate profits	$11.2		
corporate tax liability	11.7		
contributions for social insurance	5.6		
corporate inventory valuation adjustment	—5.1	23.4	
Plus: net interest paid by government	4.4		
government transfer payments	11.1		
business transfer payments	.6	16.1	
Equals: personal income			$195.2

Table III

Disposition of Personal Income, 1947 and 1948 (Billions)

Disposition	1947	1948
Personal income	$195.2	$211.5
Less: personal tax and nontax payments	21.6	21.2
Equals: disposable personal income	173.6	190.4
Less: personal consumption expenditures	164.8	176.8
Equals personal saving	8.8	13.6

Evils of SEC and the Way Out

(Continued from first page)
duced in an annual publication in the London "Times," shows none more than six pages in length, and most four pages or under. But these are adequate. The failure to include a material fact in one of them sent Lord Kylsant to prison.

In contrast, the prospectuses issued under our Securities and Exchange Commission, are impossibly long things. Fifty, sixty and seventy pages are very common. The shortest found in a large collection in a substantial financial house was twenty-three pages.

It is widely believed that nobody reads the prospectuses except the people who prepare them, but one house at least has a man whose main job it is to read the prospectuses, and to initial them as legal proof that he has read them. The purpose of this, however, is apparently to make a legal record. The other members of the firm do not use the prospectuses when they are discussing securities with customers, but instead use the workable documents prepared by security analysts. No one seems to know an investor who has read a prospectus through before buying a security. Perhaps the case exists, but it is very rare.

The legal requirement that a prospectus must accompany every sale of a given security during the first year of the life of the security is an absurd and utterly useless requirement. Its effect is to make work and expense, and that is all. A financial house selling securities makes a careful record that it has sent the prospectus with the securities, and it makes a request of the customer that he acknowledge receipt of the prospectus. In the course of the next few weeks a check is made to see if he has replied, acknowledging receipt of the prospectus. If not, he is again requested to do so. If no receipt then comes, the house, wishing to be absolutely safe on the legal side, will send him a registered letter marked "Addressee only" in which it is stated that a copy of the prospectus has been sent to the customer and that if no reply has been received from him within 10 days, it is assumed that he has received the prospectus. This involves a great deal of work and cost which has absolutely no economic justification, but which the house regards as necessary for its legal protection.

Long and uninteresting as are the prospectuses, the registration documents are, of course, very much longer and more voluminous. The really worthwhile information contained in registration documents and prospectuses could be condensed into a very much smaller space and a very much smaller number of documents. The cost of registration could be greatly reduced without sacrificing anything of the reasonable objective that full disclosure of all relevant facts be made.

"Arms Length Bargaining"

There is full justification for the protests of the investment bankers against the efforts of the Securities and Exchange Commission to require competitive bidding through sealed bids or in other ways on new public utilities security issues. It is apparently only in this field that the Securities and Exchange Commission has a semblance of legal authority to suggest such a requirement, as it bases its claim to this authority on an "arms length bargaining" provision of the Public Utilities Holding Company Act of 1935 rather than on the Securities Act of 1933 or the Securities Exchange Act of 1934.

There should be arms length bargaining between borrower and lender and between issuer and underwriter, but there is no reason at all why this should preclude enduring relations between banker and customer whether in the commercial banking field or in the investment banking field. You have arms length bargaining so long as the parties to the bargain are each considering primarily the interests that they represent, whether they are doing business with one another for the first time or whether they have been enjoying mutually satisfactory business relations for 40 years. Business houses do not change their commercial bank relationships lightly, though constantly solicited to do so in the highly competitive commercial banking field. Each prefers to deal with the institution that knows its business, knows its needs, and feels responsibility for it in times of pressure and crisis. Similarly, in the underwriting field the investment banker, who knows his customer's business and who feels responsibility for him when maturities come in bad money markets, gives him a far more useful service than he could get if he were shopping around all the time.

There should be a competitive investment market in which corporations are free to shift their investment bankers if dissatisfied with their services or with their charges. The strong corporate issuer with its financial affairs in good order and with prestige such that the public is readily interested in its securities, ought to find a market situation highly competitive in the sense that there are a number of strong banking groups ready to do the business, if it wishes to turn from the institution with which it has been accustomed to doing business.

On the other hand, the weak borrower or the weak issuer, or the issuer or borrower which has been engaging in venturesome financial practices, does well not to find a highly competitive situation. Both investment banks and commercial banks do well, in the interests of the credit situation, to hold to financial standards; and when a weak borrower seeks to escape the financial discipline of its existing financial connections, it is well if it finds that other banks, informed of the credit issues involved, suggest that it stay with its existing banking connections and conform to the requirements of sound practice laid down. Competition there ought to be among both commercial banks and investment banks, but the competition ought not to be in credit standards.

Further, a requirement which would rest the whole basis of investment bank competition on the question of the price and yield of a particular new security misses some of the greatest essentials of investment banking service. A second-rate group with limited financial power and limited distributing power might outbid a strong investment group with greater prestige, greater financial power, and greater distributing power. A corporation accepting this higher bid might well find at a later time that its securities had been badly placed, were selling at unreasonably low prices, and that its ability to put out further securities had been seriously prejudiced.

Distrust of Securities and Exchange Commission

There is pretty general confidence in the financial community in the traditions and purposes of not a few of the governmental regulatory bodies. It is particularly true that the National banks trust the good judgment and sense of fair play of the Office of the Comptroller of the Currency which has been examining National banks and giving advice regarding National bank policy since the Civil War. Individual banks at different times have their issues with the Comptroller of the Currency, and there was a period around 1916 when the banking community felt that the Comptroller was arbitrary and unfair. But by and large, the Comptroller's office knows what normal functioning is, and it is disposed to encourage it; and the Comptroller's office and the National banks have gone through a good many crises together with helpful cooperation.

There is a good deal of feeling of confidence between the Federal Reserve Banks and the member banks, and the regulatory activities of the Federal Reserve Banks are felt by the banking community to be fair. While many have been troubled regarding the money market policies both of the Federal Reserve Banks and of the Board of Governors of the Federal Reserve System, there is a strong feeling that the individual bank can get a square deal both from the Federal Reserve Banks and from the Board of Governors.

One does not find this confidence with respect to the purposes and policies of the Securities and Exchange Commission. We have here an institution which is not sympathetic with the normal functioning of the securities market, which does not believe in the desirability of, or the need for, liquidity and marketability and active functioning, which doubts the desirability of a great deal of private financing, which inclines to the view that the government should in greater or less degree take over financial functions, and which is itself greedy for power to interfere in minute details of financial transactions. It seems to delight in multiplying technicalities which cost money and make work both for itself and for the financial institutions of the country. It has been utterly indefensible in dealing with the matter of proxies, and it has imposed inexcusable trouble and expense upon many corporations in connection with this matter. It has gone far out of its way in interfering in the relations and terms of contracts between investment bankers and issuers.

The Securities and Exchange Commission aroused a great deal of apprehension by its part in the so-called monopoly investigation of the "Temporary National Economic Committee," the so-called T.N.E.C., where its representatives developed a one-sided presentation designed to show that there is little need for private investment, with the conclusion that a great deal of government investment is called for. They carefully excluded witnesses whose testimony would not have been agreeable to them and picked witnesses whose testimony would contribute to their one-sided case. This is particularly true of the testimony on the theory of capital, which is not representative of prevailing views among authoritative economists. The T.N.E.C. was largely dominated by the representatives of the Securities and Exchange Commission. There were able Congressional members of the Commission, including the Chairman, who tried hard to have fair hearings, but the hearings were not fair.

SEC Greedy for Power

The Securities and Exchange Commission has seemed greedy for more power. The bringing of the life insurance companies into the T.N.E.C. investigation aroused fear in many minds that the Securities and Exchange Commission was looking for another field to regulate.

The Securities and Exchange Commission prepared a bill which was introduced in 1940 into the Senate and House of Representatives designed for the regulation of investment trusts, which involved a sweeping delegation of ill-defined powers to the Securities and Exchange Commission, even giving them authority over the Courts of the United States in certain connections and giving them authority to substitute their regulations for existing laws of Congress, subject only to vague limitations. This bill aroused the resentment of the Senate Committee on Banking and Currency, and the Securities and Exchange Commission met its first Congressional rebuff at this point. Able men in the investment trust field went before the Senate Committee and presented with great clarity and frankness the facts regarding their business, and protested with great effectiveness against the bill sponsored by the Securities and Exchange Commission. The upshot was that the Senate Committee invited the representatives of the investment trusts to suggest legislation, and that the Securities and Exchange Commission rather meekly requested that it be allowed to participate in the preparation of these legislative suggestions. The investment trust law as finally passed by the Congress was a very different bill indeed from that which the SEC had originally proposed.

A striking instance, attracting wide public attention, of greed for power on the part of the Securities and Exchange Commission came in 1943. The thinness of transactions on the floor of the Stock Exchange itself had led to the development of a new practice, that of offering through brokerage or investment houses off the Stock Exchange, at the closing price, large blocks of stocks which security houses over the country could offer to their customers. The practice has become well established and has doubtless alleviated in some measure the thinness of the market in good times, though how efficacious it would be in a rapidly declining market has not been adequately tested. Under this established practice, in 1943 a wealthy individual, through his investment banker, publicly announced that he was offering off the Stock Exchange $25,000,000 worth of stocks. At the same time it was announced that his purpose in making the sale was to get cash with which to buy Government war bonds. The offering was suddenly withdrawn. The Securities and Exchange Commission, however, denied that it had interfered. It had merely had inquiry made of the attorneys of the wealthy individual as to whether they had considered "the possibility of registering the proposed distribution with the Commission."[2]

Radical Change in Method Called for—Settled Law Versus Bureaucratic Regulation

The Congress was right in demanding truth in securities, and in forbidding stock market manipulation. But a radical change in the whole approach to this problem is called for. There is no more reason in the security and security exchange field than in any other field of private enterprise for constant government interference in the details of transactions. The security business is in general a clean and sound business. The men in the field are in general high minded, upright and able men. The normal functioning of the security business, including the stock market, is clean and sound. Indeed the standard of integrity in this field is among the highest in any field. Every day transactions involving many tens of millions of dollars, and often hundred of millions of dollars, are made by word of mouth over the telephone. Transactions between the brokers on the floor of the exchanges are made by a word or even a nod of the head, each man making a memorandum of his own part in the transaction but neither man giving the other a written document. Disputes regarding these transactions are very rare, and when they occur, the assumption is that they are due to an honest misunderstanding and they are quickly adjusted. A very high order of integrity is necessary to make such a system work.

Occasionally, however, criminal acts occur, as in every field where human beings deal with one another.

For these occasional criminal acts, there is need for criminal law and punishment. But there is no more need for the kind of supervision of multitudinous details in which the Securities and Exchange Commission engages here than in any other field. What we should do, in the interest of normal functioning, is to set the business free in a framework of definite law, and do away with the detailed regulation.

This should involve:

(1) The abolition of the Securities and Exchange Commission.

(2) The function of the Securities and Exchange Commission of receiving and filing sworn registration statements and prospectuses should be put in the hands of a purely ministerial body in some such place as the Department of Commerce. You want a legal record of the statements of fact made by men who are putting out new securities so that they may be punished if they make false statements or if they omit essential information regarding the issues they put out.

(3) There should be created in the Department of Justice a securities and exchange division, whose business it should be to prosecute by criminal law in the courts of the United States men who make false registration statements or who put out false prospectuses, and men who otherwise violate the Federal laws governing securities and security exchanges. One may oppose a governmental agency interfering with the details of the transactions in securities, but still strongly favor criminal laws that will prevent abuses and want them enforced.

(4) The existing rules and regulations of the Securities and Exchange Commission, together with the security and exchange legislation, should be thoroughly reviewed with a view to eliminating most of the detail, and with a view to saving that part which is needed and valuable for the protection of investors and for the prevention of fraud and misrepresentation. In this connection, the Congressional committees should call before them the able men in investment banks and brokerage houses, who watch the Securities and Exchange Commission and who know the details, and get from them recommendations as to what parts of the law and the rulings should be preserved, in the form of statute law. The Congressional committees will find reluctance on the part of many of these men to testify, because of fear of reprisal by the SEC.

Finally, the law itself with respect to prospectuses and registration statements should be greatly simplified. Altogether too much detail is called for. The procedure is altogether too expensive. There is no reason for a registration statement. A prospectus should suffice, and the prospectus should be short enough so that men will read it. But it is important that the prospectus should be a responsible document on the basis of which men may be put in prison if they falsify, and on the basis of which the purchasers of securities will have legal evidence for bringing suit in the event that they have been tricked or cheated.

[2] "The New York Times", Oct. 28, 1943. There was nothing in the law that required this registration. Subsequently, indeed, the transaction was put through without registration. But the question put to the attorneys interrupted the transaction for some months. The Securities and Exchange Commission was clearly reaching out far beyond its jurisdiction as laid down by Congress in an effort to get more power.

Let's Stop March Into Death Valley of Socialism

(Continued from page 2)

proposal is that apparently every tyrant from ancient to the present time has sponsored a "Welfare State." It is doubtful that one could find a case in history in which the most ruthless tyrant did not contend that what he proposed or did was in the interest of the general welfare — as he chose to see or state it.

When government officials substitute their subjective appraisals as to what is desirable or undesirable in the Economic world for the judgments of all the people freely recorded in the market place, that government has substituted the mere will of those in authority for the objective standards of right and wrong provided by all the people. Just law is provided by informed men who utilize the objective standards of science as guides. Just law is not derived from the mere desire or will of the lawgiver.

In one of Juvenal's Satires a willful wife commands her Roman husband to crucify a slave for no reason—merely because she wills it. When he asks her why he should do so, she answers in a sentence that has become in the legal field the classical expression of law as mere will: "Hoc volo; sic jubeo; sit pro ratione voluntas"; which means "This I will; thus I order; let my will be in place of reason." [1]

That method of dealing with human problems has spread far and wide in the world of today. Apparently we are in an era of "This I will and thus I order." We in the United States have been travelling in that direction with startling rapidity. As we pursue that course, we label our vehicles of transportation with "Liberal," "Progressive," and the "Welfare State." Our march is into the Death Valley of Socialism, led by a government that apparently does not understand what it is doing. Its comprehension seems to extend very little beyond a knowledge of the tactics that have thus far kept it in the position of leadership—or, rather, dominance.

When laws and governmental practices rest upon the will of the lawgivers who have the power to enforce their will, there ceases to be any standard of right, practically, except that found in the will of the lawgiver. There ceases to be any objective standards of right and wrong applicable to both the ruler and the ruled. There ceases to be any limitation on the power of the State over the people; law becomes mere physical force.

That is the practice of tyranny. And such tyranny can come from a majority of the people of a nation if they are induced by unreliable leaders to substitute subjective standards for the objective standards of reason based upon the methods of science. The last popular vote for Hitler was nearly 100% of the total vote cast.

If a Constitution which provides the correct means of assuring justice for all is ignored by those who would exercise their will, tyranny replaces justice. The makers of our Constitution never intended arbitrary power to exist in any department of our government. Our Constitution was designed to secure the blessings of liberty to ourselves and our posterity; it was not designed to impair our liberty. Yet every intelligent adult can see something of the extent to which "This I will and thus I order" has entered our governmental policies and procedures.

Socialism, Communism, and authoritarian governments in all forms belong to the world of arbitrary **will** and **power.** They abandon objective standards for the subjective—for the standards which those in power wish to enforce. The only effective standard of right or wrong is the will or caprice of the ruler.

When objective standards of justice are seriously impaired or destroyed, States become what St. Augustine called them — "great bands of robbers." [2] When an individual robs his fellowman, we imprison him. When a government robs the people of a nation on a sufficiently large scale, we call it Socialism or the "Welfare State."

The advocates of any of the systems of governmentally-managed economy — and this includes the so-called economic planners, since they are potential dictators—wish to deprive all other people of the power to act according to their individual plans in response to the objective standards of price and of justice yielded by free competitive enterprise and markets. The purpose of the planner or would-be dictator is to make his own plan the exclusive or preeminent one. He seeks to deprive other men of their rights and freedom and to establish his own freedom and that of his friends according to his subjective desires. He seeks the power not to persuade nor to convince his opponents but to regiment them. That is the standard procedure of dictatorial governments. That is what the advocates of the "Welfare State" desire—welfare for themselves, but that of others is to be determined by the will and caprice of those who have the power to dictate.

Some attempts have recently been made in this country to distinguish a planned economy with a controlled economy. Planning intelligent government to fit into an economy in which free and fair competition is the basic criterion as to what is proper is one thing; that is correct procedure. But a governmentally-managed economy is a governmentally-controlled economy; and no amount of denial will change that fact. The planned economy being fostered by so many in Washington and in some of our states is the controlled economy of the dictator; only the gullible would reach any other conclusion.

The Importance of Individual Liberty

Now the simple fact of the matter is that no social organization is good if it does not, in addition to contributing to the material well-being of a people in general, protect and foster individual liberty. Such liberty is man's priceless heritage. Man's economic well-being and his individual liberty cannot be improved unless his government fosters free and fair competition and applies the standards yielded by such competition when regulating activities in which it is inoperative.

People have never devised a better means of encouraging individual development and social progress than by fostering equality of competition, impelled perhaps chiefly by the profit motive, and by providing at the same time the means of protecting the weak against the strong and the honest against the dishonest.

Competition must be not only free but fair. And the test of fairness, briefly, is found in whether or not the rules devised tend to produce the conditions that would prevail if the competitors had equal strength and accorded to each the same freedom in their rivalry.

Free and fair competition cannot function properly unless there be both political and economic democracy. In a political democracy, the individual is free to cast his political votes as he thinks best. In an economic democracy the individual is free to vote his dollars as he prefers. Democracy is incomplete in so far as either of these aspects is impaired.

No government or governmental organization, no government bureaucrat or collection of bureaucrats, can begin to compare in efficiency or in intelligence with the mass of people who are free to vote their dollars as they think best. Producers can never obtain better guidance than that given when all buyers are free to spend their dollars for this and withhold them from that. Buyers can never be served as well as when they can vote their dollars as they please and when producers must respond to these indicated preferences. Departures from this method of buying and selling inject into the economy inefficiency, waste, and maladjustment.

The power of one individual over another is an insidious and corrupting thing. It places a great responsibility upon the person with whom the power rests. Few people indeed can treat others as they would have others treat them. Where economic and political democracy operates freely and fully, the power of one individual over another is sharply curbed. Power is widely diffused and it is difficult to concentrate it if economic and political democracy has free play. Furthermore, the system of incentives, instead of the paralyzing hand of government compulsion, plays its beneficent role.

The advocates of planned economy, for example the Socialists, would destroy the wholesome forces of free and fair competition. They pretend to advocate democracy while seeking to abolish it. They would be dictators under the banner of the "Welfare State." They are the enemies of every man who values freedom.

We should cease making our present mistakes about these people. Step by step they are leading the people of the United States nearer and nearer to Socialism.

And let us not forget that Socialism and Communism are different only in degree of State control. Fundamentally, the philosophy of each is the same. Marx made no distinction between Socialism and Communism. His and Engels' Manifesto of 1848 was called a Communist Manifesto. Communist Russia is officially the Union of Soviet Socialist Republics.

If our march toward Socialism continues, the final gate to Socialism will some day suddenly snap shut on us; then our gullible marchers-along will awake to the fact that they have finally and completely become prisoners of their government.

There are endless ways in which our government has been tightening its tentacles over the people of the United States. There are many reasons why our people are marching along in this parade. All seekers of subsidies, all advocates of guaranteed prices and price controls and of parities and allotments are urging the substitution of the will of the government for the objective determination of values, and are contributing greatly to our march toward Socialism.

The sweet reasonableness of decent people is also a dangerous weakness in this picture, just as it has been for such people in other countries.

There is no valid basis for our apparent traditional assumption that there is a Special Providence who will always in the end protect the people of the United States regardless of how foolish they may be.

If we would save our country from Socialism, let us stop our compromises in respect to the virtues of a private enterprise and competitive economy. Let every compromiser be marked for what he is—a friend of Socialism, and an enemy of freedom and of our national welfare.

Importance of Sound Monetary System

A sound monetary system is an integral part of a good economy and a basic instrument in the assurance of human freedom.

An irredeemable paper money system is a notoriously unsound type of money; it is one of the most potent instruments that can be employed in behalf of Socialism or of a governmentally-managed economy in some similar form.

Domestically, the United States has an irredeemable currency system. In nature such a monetary system is dishonest. It reveals that the government permitting or issuing such a currency is either morally or financially bankrupt, or both.

Our Treasury and Federal Reserve banks issue promises to pay which they do not intend to redeem and do not redeem. The only exception is silver certificates. The legends on all our paper money as to redeemability and security underlying, silver certificates excepted, are all either outright misstatements of fact or are so misleading as to amount to falsehood.

When this system of irredeemable currency was thrust upon the people of the United States, they thereby lost control over the public purse. They cannot demand that the government and Reserve banks redeem their promises to pay. They are, consequently, at the mercy of the government and Reserve banks. They cannot exchange their goods and services for a money made of material that has objective value in the market place. They must, instead, take the irredeemable promises of the Treasury and Federal Reserve banks or an overvalued silver.

Our government hoards the gold stock of this nation because it does not trust our people. But it pays out this gold to foreign central banks having claims against it when they demand such payment. This is because those banks would send our irredeemable currency into a tailspin if we offered them irredeemable paper dollars or overvalued silver in lieu of gold. Our government cannot regiment foreign central banks as it does our people; therefore it must pay those banks in the best form of our money, not the cheapest, whenever they demand such payment. Our own people, on the other hand, must be satisfied with irredeemable paper and overvalued silver. They are in this manner regimented and controlled by their Federal government.

When a government extends its controls through the channels of money, it touches every person and transaction that employs money. This is a subtle type of control and it has exceedingly far-reaching implications. When this control operates through an irredeemable currency, a deadly germ is planted in the bloodstream of a nation's economy. This is not obvious to the general public. It requires time for them to perceive the fact that their vitality is being undermined, that their savings are slowly disappearing and are becoming a hollow shell, that a cancerous growth is eating deeply into the economic, social, and political fabric of the nation.

Indeed, at the outset of this disease, there is generally a feeling of increased well-being; and, remembering this at later stages of the disease, the common practice is to demand more doses of the same intoxicant, in larger and larger amounts and with greater and greater frequency, until the patient collapses.

The people of the United States have an irredeemable paper money and they have the disease that accompanies it. They like the stimulation. They cry out in protest when it is recommended that this intoxicating poison be taken from them. Large groups are driving hard to create more of it by trying to raise the price of gold, either by devaluation of the dollar again or by the creation of a free gold market under our irredeemable paper currency system which would permit our dollars to sink rapidly in terms of gold and ultimately force either another devaluation of our standard unit or a long waiting period for resumption of redeemability at the present $35 per fine ounce.

Thus in part do the symptoms of the creeping disease of irredeemable paper money reveal themselves.

In our international financial relations, based upon our restricted international gold bullion standard, foreign trade cannot revive properly nor become healthy again until gold and silver can be obtained freely by international traders who desire or need it and are free to go where they will, when they choose, in their quest for profit.

In brief, today our foreign trade is under the domination of our Federal government. Freedom of private enterprise in this important field of human activity is practically dead because foreign traders cannot freely get and use gold with which to conduct such trade. Federal Reserve banks are under the control of the United States Treasury. The Treasury is under the control of Congress. Congress is under the control of pressure groups seeking favors at the expense of the helpless taxpayer. The pressure groups exercise this great power because a docile vote-seeking Congress buys their support. It does this partly because its members have discovered that, with our irredeemable paper money system, all they need do is to require the Treasury and Federal Reserve banks to print the necessary currency as demanded.

Probably the greatest step thus far taken to rob the people of the United States of their appropriate liberties was that which deprived the people of the gold coin standard and system and, consequently, of control over the public purse.

The connection between the loss by our people of a redeemable currency and the subsequent orgy of governmental spending, profligate waste of our national patrimony, heavy and destructive taxation, and huge Federal debt, seems not to be clearly understood by many of our people.

It is important that responsible leaders in the United States understand the reasons for the prevailing reluctance of large groups of people to give up our irredeemable paper money. The majority of Congress wish to keep themselves in office and wish to buy the support of vote-delivering pressure groups. The Treasury and Reserve banks like present arrangements because they do not have to meet their promises to pay; they have been given great privilege without being required to assume the corresponding responsibilities. The people in general confuse the convenience of paper money and it temporarily intoxicating effects with the inconvenience of gold as a medium of exchange and have no appreciable amount of understanding of the other vitally-important functions performed by gold—namely, its functions as the most readily marketable commodity known to man, as a universally acceptable settler of adverse balances of payments, as a storehouse of value that has proven its superiority over all other widely-used commodities for as long as history records the facts, as a reserve against promises to pay, as the best standard of value ever devised by man.

People Are Ignorant of Sound Aspects of Money

People in general do not understand and cannot be expected to understand the ramifications of these aspects

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1 Edward S. Dore, "Human Rights and the Law," *Fordham Law Review* (March, 1946), Vol. XV, No. 1, p. 11; Juvenal, "The Satires of Juvenal" with introduction and notes by A. F. Cole (G. P. Putnam's Sons, New York, 1906), Satira VI, p. 110.

2 Dore, *op. cit.*, p. 17; Augustine, *De Civitate Dei*, Cap. IV, col. 115, Thesis 7.

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of money. But it is the duty of responsible leaders in this country to try to understand the evils of an irredeemable currency and to help bring it to an end in the United States. Some have perceived clearly what is going on and are doing what they can do stop it. Others either do not understand or do not wish to take part in the battle that must be fought if this nation is once more to be saved from the disease of irredeemable currency and a manipulated monetary standard.

Apparently the quality and degree of leadership which we have among people who like to regard themselves as responsible leaders is going to be put to a real test on the battlefield of redeemable versus irredeemable paper money for the United Staets.

May no man or woman assume for one moment that he or she is fighting Socialism or a governmentally-managed economy, or for a return to the people of some direct control over their public purse, or for economy and honesty in government, or for private enterprise, or for the opening up of foreign trade to private ingenuity if he or she is not fighting against our irredeemable paper money.

Our people might do well to review the parallelism between our situation and popular attitude today in respect to irredeemable paper money and that which prevailed in France 159 years ago as described by Andrew D. White in his "Fiat Money Inflation in France." We "secure," we say, our irredeemable paper money with gold taken from our people and which they cannot obtain. The French "secured," they claimed, their irredeemable paper money with confiscated church lands which the people could not employ in redemption. The majority of the French Assembly, and apparently of the mass of people, contended that they understood better the virtues and dangers of an irredeemable paper money than did their most expert monetary economists and than did their fathers who utilized irredeemable currency some 70 years earlier under John Law.

They were, they claimed, not despots, but real democrats, the true representatives of the people; they insisted that they were enlightened, progressive, and liberal. They ran some of their most expert monetary economists out of France so that they could pursue their so-called "enlightened" course without having their sins and stupidities pointed out by those uncooperative and "old-fashioned" economists.

It was a man on horseback — Napoleon — who rode into power on the heels of that currency. Fortunately for France, he at least swept that out and instituted a gold standard and a redeemable currency after which France struggled painfully back to recovery from the devastation caused by irredeemable money, the Revolution, and the Napoleonic Wars.

The sequence of events in which the use of irredeemable paper currencies is followed by dictators has repeated itself too often in this world to permit any responsible person to assume that we in the United States will not provide another illustration of it.

A sound currency is perhaps the best single guarantee a people can have that they will not be led into Socialism or a governmentally-managed economy. We are waiving that guarantee, and we are keeping wide open this gate to Socialism.

Now is the time to correct our defective currency system. We have fallen into the European practice of cheapening our monetary standard and of manipulating our currency, and, should we be engulfed in a severe depression, it seems highly probable that there would be an overwhelming drive for further devaluation of our dollar and currency depreciation in other forms.

Convert National Debt into Perpetual Controls

It is for this reason, also, that our Federal debt should be converted into perpetual United States Consols bearing an interest rate sufficiently high to induce savers to hold them, thus minimizing in large degree the problem which our debt might present should we be plunged into a severe business recession and depression.

A third and vitally important need in this country is for an Anti-Socialist-pro-private-enterprise political party. We have no such political party and no such organized opposition to the Socialist trends which are persistently undermining our economic and social fabric.

The Republican Party has not offered in recent years, and still does not offer, such opposition. Both major political parties have accepted the view that the task of each is to do whatever is necessary to obtain votes. The question of the wisdom or soundness of a proposal is altogether secondary in both parties to the consideration of obtaining votes. Both parties regard their function as that of playing a game—a game based upon hypocrisy, cynicism, hollow pretense, lack of principle and conviction, moral cowardice, the assumption that they must pretend to fool the people though they know the people realize the nature of this degrading performance.

The terrible need of this country is for an opposition party to watch those in power—an opposition that will have as its basic principle the sole consideration that it be right, not that it be elected. Such an opposition needs leaders who will state and fight for the truth and for what is known to be best for our country regardless of popular attitudes and public understanding of the issues involved. It is their task to protect and to educate the general public as to what those in power are doing.

Many government problems are completely beyond the ability of the mass of people to understand properly. The general public cannot themselves obtain the data needed; and there is the further question of the ability of the majority of the people to analyze the data properly. It is the duty of government officials to use the needed facilities to gather the required data and to see to it that they are analyzed scientifically by competent experts. Thereafter it is the duty of our officials to explain to our people what the facts and principles involved are and to fight for them against all odds. That is what responsible and intelligent leadership involves. It is the duty of the organized opposition to see to it that these things are done and done properly. Once the essential facts are laid before the people accurately and properly, they should be free to respond as best they can. Education is one thing; regimentation is something else.

In general we do not proceed in this manner today. Our so-called leaders in office simply attempt to find out what their constituents think they want. The opposition pursues the same course.

If our physician should abandon the principles of their science and should simply ask their patients what they would have, we would have a situation comparable to what now prevails in the field of so-called political leadership.

If the Republican Party cannot reconstruct itself on the principle of opposing what is wrong and of fighting for what is right—that is, if it cannot abandon its practice of simply trying to figure out ways to outbid the Democratic Party in obtaining votes, if it believes it proper and clever to go socialistic and to embrace such stultifying labels as "Liberal" or "Progressive" or "Conservative"—then the concerned and responsible citizens of this country should build an organization dedicated to truth and to constructive leadership, an organization designed to fight Socialism and a governmentally - managed economy in any form, and to preserve and develop the private enterprise system in this country.

Five thousand men of integrity could build such a nation-wide organization. No member should be a self-server. He should stand fearlessly for what s known to be correct. He should not yield to, nor be taken in by, any pressure group, nor should he wrap himself in any label beyond what identifies him correctly as a fighter for the preservation of the private enterprise system as outlined so briefly and inadequately in the first section of these observations.

Those men and women in both major political parties who endeavor to be responsible leaders and who now, in our present sorry state of affairs, are in a distinct minority, would, it may be supposed, be happy to join an organization in which current conventional political practices are replaced by statesmanship, absolute integrity, and a determination, first, to be right, and, second, a willingness to be elected if the people wish to see such men and women in office.

Both major political parties are bankrupt in so far as high and proper standards of leadership are concerned. Neither can be relied upon to serve this nation honestly or well. Both are working day and night to please self-seeking pressure groups, and both are selling the people of the United States down the river to the slavery of Socialism.

Many of our responsible and concerned citizens have been contributing to the support of our major political parties, hoping to get a majority of statesmen in at least one of them. There is no such majority in either party, and there is no good reason to suppose that there is likely to be such a majority.

A party of statesmen needs to be built anew if we are to have it. It would be a new, enriching, and challenging enterprise for genuine leaders in this country. It would provide the needed opportunity for people who have and prize self-respect, honesty, and statesmanship and who thus far have shown that they will play no other part in the performance of their obligations of citizenship.

There are surely five thousand potential leaders of this type in the United States. Let them cut themselves loose from our present bankrupt and degraded, and degrading, political parties; let them organize and constitute themselves as vigorous, constructive critics and watchdogs over the demagogic vote-buying politicians in power. Let them not contribute a cent to the support of either party; let them aid only independent statesmen who happen to be in office and who should be kept there if possible. Let them fight every self-seeking individual and pressure group. Let them, in short, be the rescuers and protectors of this nation. Let them be the refuge of, and provide the rallying ground for, high - minded, high - principled, self-respecting citizens. Let them put an end to our degenerate, self-serving, demagogic political parties.

Such an organized opposition to demagoguery and Socialism now should be able to restrain our present government and encourage the passage of constructive legislation until the battle can be fought on clear-cut lines between the Socialist and anti-Socialist forces two and four years in the future.

The time to organize and to draw the line for choosing sides is now. No man knows what another few months or years may bring. We are marching steadily and rapidly toward the Death Valley of Socialism. Any time later than now may prove to be much too late. There are serious and responsible scholars who believe that we are following the course pursued by England and will be plunged into Socialism and social disintegration before we learn our lesson. What then? Apparently no one can know.

These possibilities require that responsible citizens do their duty now. We need to dedicate our lives, our honor, and our fortunes, as did our Revolutionary Forefathers, to the preservation of our freedom from Socialism.

Past generations did not work and save and invest, and develop, and fight, and die to pass on to us a great national partimony and freedom merely to give the degenerate political parties of this generation an opportunity to squander this patrimony and to impair or destroy the freedoms for which mankind has struggled throughout the ages.

Our generation is the trustee of this great heritage. But, if we are to prove ourselves worthy and reliable custodians of it, let all who would aid in the fulfillment of this great responsibility promptly organize to save this nation from those who feel no such responsibility and who are either indifferent or thoughtless or are busy undermining and dissipating our priceless heritage.

Holden Says Housing Needs Are Distorted

Appearing before the Senate Banking and Currency Committee in behalf of the Commerce and Industry Association of New York, Inc., on Feb. 16, Thomas S. Holden, President of the F. W. Dodge Corporation, opposed the passage of Senate Bill 138, known as the General Housing Act of 1949, on ground that it will lead to government deficits and will eventually destroy the private housing industry.


Thomas S. Holden

Speaking of the proposed legislation, Mr. Holden stated that "It authorizes expenditures which, added to the already enormous Federal Budget and to proposed expenditures for other purposes, are likely to cause government deficits in the near future, and government deficits are likely to cause new inflation and new demands for controls of the economy. Continuous deficit spending by governments has been an outstanding cause of insolvency and lowered living standards in many other countries."

"This Bill", he added, "proposes an enormous government housing program. Concurrently, there is being considered by Congress an extension of rent control for two years. Large government housing programs, coupled with continually extended rent control has, in practically every country where the combination has been tried, caused extinction of the private home building industry and has, in many cases, led to nationalization of other industries."

Claiming the country's housing needs have been distorted, Mr. Holden said:

"The supposed need for this legislation is based upon propaganda, not on facts. Public and Congressional support for a vast program of federally-subsidized housing has been secured through gross exaggeration of the postwar housing shortage and a grossly distorted picture of the housing needs of the country.

"The country's postwar housing needs have been repeatedly stated to be in the range of 1,260,000 to 1,500,000 new non-farm dwelling units a year for 10 years.

"It is necessary to explain how the 1,260,000 figure was arrived at originally by the National Housing Agency in 1944.

"First, there was an estimated primary market need of 630,000 units a year average. This was supposed to accommodate all the new families, increased migration from the farms, servicemen's houses to be established or re-established, undoubling of married couples then living with another head of family and a 5% vacancy allowance.

"Second, the postwar demand for new units to replace units to be destroyed, demolished or abandoned for any reason was estimated at an additionl 630,000 units a year. Since total replacements averaged only 40,000 units a year from 1920 through 1939, this estimate called for a tremendous upping of replacement activity. Incidentally, the prewar replacement of 40,000 units a year was estimated to include 20,000 units annually destroyed by fire, storm or flood, and 20,000 units purposely demolished to make way for new improvements or other reasons.

"This estimated postwar replacement demand of 630,000 units a year was completely unrealistic, though very serviceable for propaganda purposes.

"Stepped-up replacements were supposed to balance elimination of all 'substandard' dwelling units in 20 years (half of them in the 10-year period 1946-1955). 'Substandard' units were defined as all those reported in the 1940 housing census as needing major repairs plus all units in metropolitan areas which lacked private baths.

"Repeated Census Bureau surveys have shown that there has been steady progress in repairing, modernizing and otherwise improving such dwelling units, by their owners. On the basis of the most recent census survey, it is estimated that about 2,240,000 housing units were taken out of the 'substandard' class and put into the 'habitable' class between April, 1940 and April, 1947. From the same survey it is estimated that there has been a net gain of 1,117,000 to 1,367,000 family units in the same period resulting from conversions of buildings of other types to residential use and division of large houses into apartment suites.

"It is thus seen that the NHA estimates counted out of the postwar housing market a tremendous source of housing supply. It was as if one ignored completely the used car market as a source of this year's supply of automobiles.

"The Census Bureau surveys of actual housing conditions have received much less public attention than have the inflated needs estimates.

"Since V-J Day the private home-building industry of the United States has produced more than 2,500,000 new non-farm dwelling units (according to B of LS estimates) and an unknown number of farm dwellings. This is more than twice the combined housing production for the period of 16 western European countries.

"As a result, the acute postwar housing shortage is very nearly, if not quite over. At least, housing is definitely entering a 'buyers' market' phase."

How Real Were 1948 Profits?

(Continued from page 19)

preciation reserves understate the amounts required for replacement purposes. In part, the magnitude of the understatement will be determined by the price level prevailing at the time the replacement actually is made. Generally, prices are now more than double what they were before the war. Equipment which must be replaced now costs considerably more than it cost when originally required, particularly if that acquisition took place prior to 1946 or 1947.

Total depreciation charges of American corporations aggregated $3.5 billion in 1940. In 1948, despite the large increase in the volume of plant and equipment during the war and postwar years, total depreciation charges were only $4.9 billion, or 40% larger than before the war. If it can be assumed that depreciation reserves in 1940 were proper, and that no new plant has been added since that time, then on the basis of a price level which is twice as high, the cost of replacement would have been $7 billion in 1948 as compared with $3.5 billion in 1940 and an actual total of only $4.9 billion in 1948.

In light of the $77.4 billion in business expenditures for new plant and equipment from 1941 to 1948, it appears that the increase in current depreciation reserves over 1940 probably allows only for the additions to plant and equipment during the war and postwar years.

Perhaps I can illustrate the nature of this problem a little differently. Let us assume that you own an automobile for which you paid $2,000 and insured it for that amount. The car is totally destroyed in an accident and the insurance company reimburses you for the $2,000. However, when went to the market place you found that the cost of replacing that car was $3,000, while the sum available to you was only $2,000, (a situation not unusual in the early postwar years). If it were a business firm that owned the car, the extra $1,000 would have to come out of profits. It would certainly be far from accurate to report the profits of the firm inclusive of that $1,000.

If it be estimated that depreciation reserves set up in the last three years understate the amounts required for replacement by $5 billion, and it may have been larger or smaller, then that amount will have to be met out of the reported profits for the period. I have previously shown that *after allowance for inventory profits, the aggregate reported profits for the period 1946 to 1948 must be reduced from $50.6 to $37.6 billion. If an additional $5 billion is allowed for the understatement of depreciation reserves, the reported profits are further reduced to $32.6 billion, or less than two-thirds of the reported total.* I would like to emphasize again the very rough nature of these estimates because of the inadequate data which are available concerning these two factors.

Purchasing Power of Profits

The cost of living for business has risen substantially since before the war. Business profits along with other types of incomes have risen substantially during the past decade. The rise in all of these incomes has reflected the underlying inflation which has characterized our economy. The profit dollars received today are less valuable than those received in the past. Stockholders have been affected by rising living costs as well as other consumers. Dividend dollars have shrunk in their purchasing power as have wage dollars. Actually, if we assume that these profit dollars have been cut in half, then in terms of 1939 dollars the 1948 total becomes slightly less than $10 billion instead of $19.7 billion as reported. This level was about twice as large as the abnormally low level in 1939.

Thus, when we ask the question, "How real were 1948 profit dollars?", one answer could be that each dollar was one-half as real in terms of purchasing power as it was in prewar years. *Although in terms of dollars, total 1948 profits were four times as large as before the war, 1948 real profits were only twice as large.*

Return on Sales

The margin on the sales dollar has not increased significantly during the war and postwar period. The increase in reported dollar profits has reflected primarily the larger gross volume of business. While there are undoubtedly instances of profiteering, it seems clear that they were the exception, rather than the rule. During most of the postwar period, such industries as steel, automobiles, farm implements and others, have not charged as much for their products as could be obtained in the open market with the result that substantially "gray markets" developed. *There is little evidence to support the charge that large reported profits have represented profiteering or that substantial increases in profits have caused the wartime or postwar rise in prices.*

Return on Net Worth

While profits as a percentage of sales shows the relationship of profits to prices, the return on net worth is the more important indicator of the incentive function of profits. According to the figures compiled by the National City Bank, large companies in 1948 had reported profits after taxes equal to 18.7% of their reported net worth. According to the Council of Economic Advisers, for the economy as a whole, profits represented "about 10% of net worth" in 1948. That *reported* profits have represented a substantial return on *reported* net worth is evident. However, these figures must be interpreted with great care.

Net worth is based pretty largely upon original cost as recorded on the books. Net worth shown on the books bears little or no relationship to the value of these companies today or to the incentives which are derived from today's costs and prices. Perhaps a simple illustration may indicate the nature of this problem. Let us assmue a plant cost $100,000 before the war (and that this is also equal to the net worth of the company) and that reported profits in 1948 totaled $20,000, or an apparent return of 20% on net worth based on prewar costs. In deriving this profit, $10,000 was deducted for depreciation. Actually the plant would cost $200,000 to reproduce today and if allowance were made for this higher price, there would be a doubling of depreciation reserves to $20,000. After allowing for this increase in depreciation costs and the tax credit, the company would have profits of $14,000 after taxes. But this would represent a return of only 7% on the net worth of today's price or $200,000, as compared with 20% apparent return on net worth based upon prewar costs. The following tabulation shows these calculations.

	Before War	Today
Net Worth	$100,000	$200,000
Gross income	100,000	100,000
Costs, other than than depreciation	58,000	58,000
Depreciation	10,000	20,000
Profits before taxes	32,000	22,000
Taxes	12,000	8,000
Profits after taxes	20,000	14,000
Return on Net Worth	20%	7%

Profits and Purchasing Power

The charge is frequently made that the record reported profits of the postwar years have accounted for an excessively large proportion of the national income, and as a result have been undermining the base of consumer purchasing power. In effect, this argument seems to assume that wage dollars are spent, while profit dollars are locked up and do not enter into the stream of national purchasing power. The facts of the last few years provide no support for this thesis. For example, in 1948 retained net earnings and depletion allowances of corporations aggregated $12.5 billion and depreciation reserves totaled $4.9 billion, the combined total was $17.4 billion. However, expenditures for plant and equipment and inventories together with the increase in customer financing, required $26.3 billion. The difference of almost $9 billion was obtained largely by the sale of new securities which provided $5.9 billion, (bonds, $4.8 billion and stocks, $1.1 billion). An additional $1.6 billion was obtained by various types of borrowing.

These undistributed profit dollars therefore, were spent and helped to provide jobs and to sustain the economy at the boom time levels reached in those years.

In the past periods of boom, profits have accounted for some 9% to 10% of national income, while in periods of depression the ratio has fallen considerably and in such years as 1932, the corporate economy actually has operated at a net loss. By this test even reported profits were not high in terms of the 1948 volume of business. If the comparison were made after deducting the part of profits which must be used to acquire higher cost inventories and plant and equipment, the ratio of profits to national income would fall below 7.2%.

During the postwar years, corporations have distributed only a small proportion of their reported paper profits as dividends. Thus, in the three year period 1946 to 1948, out of reported corporate profits of $50.6 billion, only $20.1 billion, or about 40%, were distributed as dividends. In contrast, 70% of corporate profits were distributed as dividends in 1929 and 65% were distributed during the four prosperous years, 1926 to 1929. To a large extent this decline in the proportion of reported corporate profits distributed as dividends has reflected the *inability* to distribute larger earnings rather than an unwillingness to do so. $13.1 billion of the corporate profits after taxes from 1946 to 1948 represented inventory valuation adjustment, while an additional $5 billion reflected the understatement of depreciation reserves. After allowing for these two items, total corporate profits would be reduced to $32.6 billion. If total dividend payments of $20.1 billion are related to this figure of adjusted profits after taxes, it is found that about 60% of this total has been distributed. This proportion is only moderately lower than the total distribution in the prosperous Twenties. In light of the greater requirements for expansion and the increased needs for working capital to finance larger volume of business, higher wages, etc., this moderate difference in the ratio would seem to be readily explained.

In 1948 if it be assumed that inventory valuation adjustment and understatement of depreciation together accounted for about $5 billion, there would be left $14.7 billion in profits after taxes and after deducting these two amounts. Dividend payments of $7.6 billion in 1948 were approximately 52% of this adjusted figure.

In light of the foregoing data, it seems clear that while business has been following a conservative dividend policy, the degree of conservatism is considerably exaggerated if real profits are examined in contrast to reported paper profits. *Business has paid a low proportion of its reported profits as dividends because more than one-third of these reported profits have been required to meet higher replacement costs and hence were not available for distribution as dividends.*

Profits and Proposed Taxes on Profits

The postwar boom has been sustained in large measure by the large volume of business spending. It is against this background that the proposal made by the President to increase taxes mainly on corporations, by some $4 billion must be examined.

Our national economy has been undergoing a readjustment. In industry after industry the sellers' market has become, or is becoming, a buyers' market. The main areas of weakness have been the soft goods industries, particularly apparel and textiles, luxury products, and some services. The main areas of strength have been the durable goods industries, particularly steel, electrical equipment, railroad equipment, and similar lines. To the extent that strength is maintained in the durable goods areas, the readjustment now taking place in soft goods will not plummet us into a depression. It is in this connection that *the President's tax program must be regarded with serious concern.* Higher taxes on corporations at this time would act to reduce the total volume of corporate profits after taxes.

This would take place at a time when some of the unreal elements in the reported profit figures also are being reduced or reversed. Thus for example, if prices stabilize or decline, the inventory profits which have contributed to the large total of paper profits will disappear and hence reported profits will be reduced. To the extent that price declines do take place, inventory losses will take the place of inventory profits and accelerate the reduction in reported profits. The real profits, of course, will show no corresponding change unless there is also a narrowing of profit margins or a reduction in the total volume of sales with the consequent adverse impact upon operating profits. Since breakeven points have risen so sharply in many industries, small declines in volume will mean substantial declines in profits as has been so vividly demonstrated by an examination of railroad earnings in January of this year. Thus, business would be paying higher tax rates on a smaller total reported profits base and hence the decline in net profits after taxes would be accentuated as a result of this twofold squeeze.

A larg proportion of the funds required to finance the expansion of plant and equipment over the past few years, has been obtained from retained corporate profits. There have been no developments which would warrant the belief that such funds will suddenly become available in large amounts from a rejuvenated capital market. If such funds are not available, there will inevitably be a reduction in the total volume of business spending with the consequent weakening in the areas which are now providing the main strength in our economy. In fact, some advocates of increased taxes specifically make the point that this would be a desirable development.

The net effect of higher taxes upon business profits under these conditions, would be to accelerate the deflationary tendencies which, at the present time, seem likely to be confined mainly to the soft goods sector of the economy. A substantial increase in corporate taxes under these circumstances conceivably could contribute significantly to the business depression which all of us are so anxious to avoid. At the same time, such a decline in business activity would be accompanied by lower personal incomes and hence a decline in the volume of income tax collections. If this should develop on any significant scale, the increase in corporate taxes could result in a net decrease in total tax collections and hence fail to provide the budgetary surplus which is sought. In other words, *the tax increase would be self-defeating. In light of the uncertainties in the present business picture, this would appear to be the wrong time to increase taxes as Mr. Truman has proposed.*

In closing, it seems evident that corporate profits have been magnified out of all proportion to their real significance by the inevitable distortions introduced by accounting techniques in a period of inflation, a failure to understand the residual nature of profits, and what appears at times to be an unwillingness to examine all of the facts. When businessmen explain these profits in simple language, it is inevitable that many others will join with Senator Flanders in his observation at the conclusion of the profits hearings before his Committee in Washington, namely, "There seems to be a better justification for profits than I expected."

Offers Bill to Reduce Dividend Taxation

Representative John W. Byrnes introduces measure in Congress which will allow taxpayers 20% off taxes on dividends not exceeding $2,000.

Representative John W. Byrnes (R.-Wis.) on March 7 introduced a bill in House of Representatives which aims to reduce taxes on dividends received by small investors. The bill would allow a tax credit of 20% of annual dividends up to $2,000 a year. The purpose of the measures, according to Representative Byrnes is to counteract the trend from stock to debt financing.

"By providing a tax credit for dividends received by individuals up to a maximum of $400 per year," Rep. Byrnes stated, "there would be a very definite incentive for people in the low and middle income brackets to invest their savings in business and in the American system of private enterprise.

"The proposal would make possible a return to equity financing. It would be of particular assistance to small and new businesses in obtaining capital. The proposal would be simple to administer. It would be a step in the direction of eliminating double taxation of dividend income.

"The 20% figure is used because it approximates the first bracket of individual surtaxes. It also approximates the present corporate tax rate of 21% on the first $5,000 of income. Its justification can, therefore, be based on the theory that the corporation has already paid a tax equivalent to the first bracket rate on individual incomes."

Wade E. Bennett Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Wade E. Bennett will engage in a securities business from offices at 6801 Santa Monica Boulevard. Mr. Bennett is Executive Vice-President of the Hollywood State Bank.

Pointers for Salesmen—A Baker's Dozen

(Continued from page 4)

Without it, you couldn't begin to sell, you couldn't tell your story. You certainly couldn't answer suggestions; you couldn't generate any enthusiasm. But it is not in itself enough, and can be likened to one lateral of the sales triangle which I will put on the blackboard for you.

Another lateral of the sales triangle we are going to build is just plain, ordinary, every-day hard work. Now, I am not silly enough to try to come up here and sell you on the idea of working harder. I know better than that. I know, for example, that had any theatre been burned down in Boston this morning, 90% of those killed would have been salesmen. I have found this out after knocking my head up against the wall for a good many years, that either a salesman sells himself on this idea of working, not only working, but smart working, good working habits, intelligent working; he either sells himself, or he never does get sold on it. I saw a sign in a New York store window which read something like this, "Notice: No one in this store works over 40 hours a week, except executives." There is a pertinent thought there.

I was talking to one of our sales managers about this matter of hard work and he said, "You know, Wally, I like to do nothing better." I still don't know what he meant.

I am going to leave it, then, with the observation that Confucius, Jr., made a few thousand years ago when he said, "Man who cover chair instead of territory spend most of time on bottom."

The third lateral of this sales triangle is *your selling personality*. And as so often happens, gentlemen, it is not equal to the other laterals of the triangle. And you know, and I know, so many salesmen of whom that is true. They work hard, they are on the job in the morning on time, they work a full day, and Saturdays, and they seem to know an awful lot about their product of their service, and yet they never become star salesmen, never become efficient producers, simply because they haven't developed this lateral of the triangle.

Selling Personality

But if we can persuade men to first evaluate, to take personal inventory, if you please, of their selling personality and say, "I have it"—and not only do we all have one, but we can develop it, just as you can develop a muscle if you want to, if you think about it—if we will do that, then in an amazingly short time the base of the triangle becomes equal to the other laterals of the triangle. And in that, gentlemen, I know you are interested because we have touched the pocketbook nerve. As Dan Kaufman puts it, "The pocketbook down here is six inches nearer the heart than the head." And so you are interested.

It is about this selling personality lateral of the triangle that I would like to talk to you, because while it is so simple and so obvious, it is so often neglected. A short time ago I said to my secretary, "Go out to the library, or Kirstein's place, or somewhere, and bring me back a few short, terse paragraphs on this idea so I can pass it along to sales groups"—of this kind—and she came back with paragraph after paragraph of stuff. And I said, "No, darling—No, Margaret, this has to be short, brief." This time she came back with just one word, "sympatico," which, as you know, is a Spanish word meaning among other things "sympathy." But to the Spanish-speaking people, it has a much broader connotation; it means, among other things, the ability and willingness to talk from the other fellow's viewpoint. Let me say that again, the ability and willingness to talk from the other fellow's viewpoint. So many salesmen, I have found, have the ability, but, seemingly, not the willingness, and others apparently the willingness, but not the ability, and so I am going to talk about some things, I am going to give you about a baker's dozen of suggestions for "sympatico." You will find that in the measure you think about them and apply them to yourself; they will help you sell.

There was a fellow named Elmer Wheeler running up and down the country a few years ago, particularly during the war years, telling everybody that customers were keeping books. Ah, yes, he said, customers were keeping little black books for all those shopkeepers and salesmen and gas stations and garages and whatnot, where you went in and just got treated like something very low down, those people who had completely forgotten that the customer's memory would outlast the war. And when they ran up against that sort of situation, they put their names in a little black book. And, conversely, when they found that rare individual or salesman with courtesy, a friendly smile, a friendly and intelligent explanation as to why the answer was probably no, then on that rare occasion they put the names in a white book.

Well, I got a little apprehensive about that and I thought, "Well, if all the customers are keeping books, the salesmen had better keep some kind of a book," and so I developed what I call the little blue book. And the only reason in the world it is called a blue book is that I put it in a blue cover. But in it are a baker's dozen of suggestions for "sympatico." And I want you to pay attention to them, fellows, because while they are so simple and trite that you may resist or have to resist grinning at them, they are the important things, they are the basic things, that are so important in this business of a career in salesmanship.

"Learn to Like People"

The first one is, *"Learn to Like People."* Note that I emphasize the word "learn." Men, it should never be said of a salesman that he is a good fellow if you get to know him. Why not? The answer must be obvious: A customer may never get to know you. Then it means that we have to be flexible in our attitude toward people; we must go out of our way to learn to like people. It is a business of impersonalizing what you don't like and refusing to dislike the whole person simply because of some things that don't measure into our pattern.

Somebody says there are a hundred million people of different likes and dislikes, background and environment, heredity, and so forth. We don't meet them all; we see only our cross-section of them. But they don't all fall into our pattern. A real salesman learns to be flexible in his attitude toward people. It is a business of impersonalizing what you don't like and seeking, building, looking for and building up those things that you can like. The minute you start thinking in those terms, men, you generate an enthusiasm for people.

Now, enthusiasm is the white heat that melts down all barriers. Enthusiasm tramples over prejudice. And that word "prejudice" means to pre-judge. Now, people are constantly pre-judging you and me. They pre-judge our company, our polices, our service and so forth. But if we are genuinely enthusiastic, then we get over that hurdle, because enthusiasm is so contagious. And so many fellows, so many salesmen, will say—I have heard them say—"Well, enthusiasm is all right if you have it, and if you haven't got it, it is just too bad." But that isn't true, because enthusiasm is the product of your thinking. In fact, it is entirely dependent upon your thinking. And so, you can all have it because you can all think positively, and then you can stand guard over your thinking.

One of the best definitions of the word "enthusiasm" that I have read says it is from the Greek, "en" from the Greek word meaning "in," and "thuse" from the Greek word meaning God, so enthuse means God, or good, in us. And that is just another reason for wanting to have it.

There was a sales manager in Cleveland who was going to retire at the age of 42, with $100,000. It was so unusual that a sales manager should be able to retire at 42, let alone have $100,000, that the papers decided to interview him. "Yes, boys," he said, "I owe my success in life and the fact that I am able to retire at 42 with $100,000 to three things: first, unfailing honesty in dealing with the public; second, boundless enthusiasm; and third, the fact that my great-aunt recently died and left me $98,000."

That is very old, but gentlemen, there is a moral in that for us, because most all of you don't have great-aunts, and if you do, they are not going to leave you $98,000.

And I would say to you that the greatest bankrupt among you is that person who doesn't have it and you are not going to be a real salesman without enthusiasm. Enthusiasm isn't taught; enthusiasm is caught, but it is a matter of your own thinking. And so I recommend it, and it is tied in very closely with that thought, "Learn to Like People."

"Have a Friendly Smile"

My next suggestion to you is that you *"Have a Friendly Smile."* Did I say this stuff was old? Did I say it was trite? Did I say it was obvious? Again I remind you that successful selling is so simple that it isn't obvious to the average person. There isn't a man in this room who wouldn't agree with me that a friendly smile is important, yet statistics show that 4% of the salesmen smile enough. We go in to our prospect with a grim look written all over our face and then wonder why we meet resistance.

And gentlemen, I don't mean that we should go around grinning like a Cheshire cat, and I don't mean we should always be wearing a smile, but I say one of the most important things you wear in your approach to a sale, outside of your trousers, possibly, is a friendly smile, one that says, "I am glad to see you; I am glad to be here; I am glad to talk to you about an idea that I believe will help you." Otherwise, you look and smell like a salesman; and that is no good, that is just no good.

So there it is, and I will leave that thought with the observation that even a dog smiles by wagging its tail, and you fellows ought to be grateful that you can smile on the right end.

"Be Generous With Honest Praise"

My third suggestion is that we *"Be Generous With Honest Praise."* Be generous, and note the words *"honest* praise." Well, what is this? Why, that is the good old appeal to pride mover. And I use the word "mover" advisedly, because it does move toward understanding and appreciation of the business. Now, I think you know, of course, that I am referring to the appreciation type of approach when I think of it in terms of salesmanship. But not just that; I am thinking in terms of appreciating a man's ideas, his willingness to listen, the fact that you never make a sale without an interview. I am thinking, too, of men who crave appreciation, and note the words "crave appreciation."

A poor old tramp was walking along a dusty road, and a farmer comes along and gives him a ride.

And the wagon goes down the road a piece and they meet Cy Perkins, and Cy says, "What you got on," and the farmer says, "A load of manure and a tramp." Well, they continue on and they meet Farmer Brown, and Farmer Brown says, "What you got on," and the farmer says, "A load of manure and a tramp." Well, a little later they meet Farmer Smith and he asks the same question and gets the identical answer. And this time, the tramp walks up to the farmer and says, "Please, Mister, next time mention me me first?" Clearly a man — and I think we all do — who craved appreciation.

Now, on the chance that there are some management people in this group—and I expect that there are, or men who will be managers—let's carry that idea a little further. Let's talk in terms of using it with our salesmen with our associates, with our own workers. You see, business has always been made up of three M's, so they say, and it used to be "Money, Materials and Men" in about that order. But today, as you all well know, it is, "Men Materials and Money." And I think we ought to recognize that and that we have a real challenge to develop the most out of the man, to get the most from him, to develop his ability to the greatest degree. And you can't do it by criticism; you only do it by honest appreciation, as a very important management tool. Men will go so far for the dollar sign. You always think of the thing they want as being the dollar. But they will go so far for the dollar sign they will go so far for a good boss, too, and they will go all the way out for a cause. So, gentlemen, you will think of your men, too.

I could just go on for about an hour on this idea of being generous with honest praise, because it is so tremendously important and vital in this business of dealing effectively, selling effectively.

"People Like Good Listeners"

My fourth suggestion is, *"Listen! . . . People Like Good Listeners."* A friend of mine in New York has a little motto in the form of a prayer on his desk, which reads something like this, "Dear Lord help me to keep my big mouth shut until I know what the hell I am talking about." Well, I would say to you, "Local papers please copy." Because, gentlemen, so many do it. We go in and we think to blow down the prospect with a storm of words, a torrent of words. And that isn't selling at all; that isn't professional selling. The professional man prescribes for his client, and that is what your job is, too. Selling is not a monologue; it is a dialogue it is a two-way street. And gentlemen, I submit that more sales have been lost because we talk too much and too long than for many many other reasons. Let me give you a "for-instance."

Mark Twain tells a story about a Chinese missionary who was over in this country talking about the poor heathen Chinese, and he waxed eloquent in their cause and Mark Twain, who was sitting in the group, decided to give ten of the twenty dollars he had in his pocket when the basket was passed. The fellow kept talking and reached such heights of oratory that Twain decided to give all twenty of the dollars. Finally, the speaker reached such an emotional pitch that Twain decided to borrow ten dollars from his neighbor sitting beside him. But unfortunately this fellow kept talking and talking and talking, until finally when the plate was passed, he reached in and stole a dime.

Now you see why I have put in here, "Listen! . . . People Like Good Listeners," because it is a very important part of this business of developing and building sales, to be a good listener.

Talk in Terms of "You"

All right, number five is, *"Talk in Terms of 'You' not 'I'."* Gentlemen, that is a matter of having the ability to put yourself on the other side, of being able to see this service which you sell through the eyes of the prospect, to understand that there is only one hero in the selling part and it isn't you or me, but it is the customer, the buyer, the prospect. It used to be that we were salesmen if we had a pat on the back and a couple of dirty stories. But today, gentlemen, selling is a skill. In fact, it is the measure of the skill with which you present your facts and appeals. Let me say that again, the measure of the skill with which you present your facts and appeals.

Question, how skillful are you? How skillful are your employees? Well, let's think about that. Joe Cook says, "Of all my wife's relations, I like myself the best." What is he saying? Why, he is pointing up that people are always thinking in terms of that one little sentence, "What's in it for me?" Because you can blame all the sales resistance to your product or service, or mine, or anyone else in Boston or Timbuktu, and you have that one little sentence, "What's in it for me?" I am sure, after you have been selling for ten days, you all subscribe to that idea.

But how well do you do it? How well have you got your sales talk organized, so that you can go in there and say, "I am so-and-so from such-and-such"? Because that means nothing, absolutely nothing. But here is something that we can do for you and I think that is one of the important messages I have for you tonight, this idea of talking in terms of "you," and not "I."

Learn to Agree

My next suggestion, Number Six, is that we "Learn to 'Agree Before You Disagree'." Now, what is that? Why, it is a salesman's language, of course; that is the old "Yes, but." But what do you mean by "Yes, but"? Why, somebody, somewhere along the line told you that when the customer said "No," you must always get a "Yes, but" in there. You must say, "Yes, but did you realize," and then you are on your way again. Fellows, that isn't worth a damn; it doesn't mean a thing. The customer doesn't hear it, it isn't a form of courtesy, and certainly it isn't a form of good selling. The idea is sound, but I think we want to remember that it is the basic idea back of it. And so I call it "Agree before you disagree," or you could call it "Spar." What do we mean when we spar? What do you think of when I talk about sparring? Somebody sizing up an opponent, somebody getting ready for something to give a lead when it is necessary. So let's think about the sparring. And it is made up of three steps:

(1) Attitude: Now, what do we mean by attitude? We mean a willingness to go along with the customer's objection, to try to understand it. And you can't very well show attitude. Of course, a smile is a form of attitude, a thoughtful look, an attentive look. Somebody said 3,000 years ago, in the Bible—and the Bible is a book you ran get in any hotel room or public library—he said—and I think it was Solomon—"As a man thinketh in his heart, so is he." That is attitude, as you think, and

that is what we are talking about. So think about this thing.

The second under sparring is simply, "Is that so?", "Do you mean it?", "Do you feel that way?", "Is that right?", which requires no answer, but perhaps gives you time to think. And there isn't a salesman in the world who can talk as well before he thinks as after. Selling is really a business of thinking, planning and talking, isn't it? That is the idea.

And the third step is an assurance statement, "Well, if that is the way you feel, Mr. Prospect, I am glad you brought that up, but here is what I had in mind for you." Now, that is an assurance statement, something like that, "Yes, that is a very common misunderstanding, Mr. Jones, but had you considered this?" Don't just say, "Yes, but," because that stamps you as being one of those mechanical type salesmen who doesn't think about the prospect but thinks only of himself. And that isn't the idea. Learn to agree before you disagree.

The next suggestion is, "*Don't Argue—If You Win, You Lose.*"

My friends, you are not debaters, but you are persuaders. So you can argue until the cows come home—and of course, you may say, "Well, I have to argue; that is my job." I am thinking of argument in the poor sense of the word.

Don't argue—If you win, you lose. Because you can win the argument, you know more about the deal than the prospect possibly can. But you wouldn't very often win the sale that way, and you don't win good will that way.

"When You Are Wrong, Say So"

Number eight is, "*When You Are Wrong, Don't Be Afraid to Say So.* Now, here we are dealing with an attitude again, gentlemen. There is no one that is always right, and yet it seems to me that as a class, salesmen try to prove that they are right all the time. You aren't, and it is psychologically true that if people have to forgive you for something they love you a little better. So, it probably belongs in here, when you are wrong, don't be afraid to say so.

Understand Other Fellow's Viewpoint

Number nine is, "*Try to Understand the Other Fellow's Viewpoint.*" Now, again we are talking about making the other fellow feel important, a deliberate, conscious, understanding attempt to make the other fellow feel important. That goes with this proposition: that is important. It is a little broader than "Talk in terms of you, not I." We pay lip service to that idea; we say it is sound. But, gentlemen, that is loused up in every business, yours and mine, everywhere you go.

Make the other fellow feel important. Well, gentlemen, there is an application of that idea for every one of us. And I beg of you to find ways and means to do that with your prospects and your customers, because it pays dividends.

"Use Showmanship"

Number ten is, "*Use Showmanship in Your Selling.*" Maybe you don't like the word showmanship; maybe dramatize is a better word.

Some of you good old New Englanders may have an inherent dislike for that word showmanship; maybe dramatize your ideas is better. Well, men, there are all kinds of showmanship. I am not thinking of the blatant type, the loud noise, the circus. Rather am I thinking of that type of showmanship which is in the three S's, simple, solid and sincere. That type is indicated. A wooden Indian doesn't sell, believe me. And I make no apology for saying that there are too many wooden Indians in the selling profession.

Now, I said there is all kinds of showmanship. There was an oil burner concern in Detroit which had an ad in the evening paper and it read something like this, "Notice, anyone that wants one, a perfectly good coal shovel, come and get it." Hundreds of people lined up in front of the firm's offices the next morning and they all took home a coal shovel. And when they got home, they saw printed on the handle, upside down, while they were shoveling the coal into the furnace, "If you had one of our automatic oil burners now, you would be upstairs sound asleep instead of shoveling coal."

But the kind of showmanship that you and I are interested in is that which enables us to show as well as tell the prospect what there is in this deal for him. And there are many ways of doing it. You know your business well enough to know how you can bring showmanship and dramatization, and action, if you will, to your selling. Basically, however, the idea is to remember that there is only one hero in the selling show, and it isn't you or me. It is the buyer, it is the customer, the prospect.

Wheeler states it most succinctly, I think, when he says, "You don't buy the product; you buy the product of the product." And that is right. You don't buy glasses; you buy vision. You don't buy awnings; you buy shade. You don't buy circus tickets for your youngsters; you buy thrills. You don't buy papers as you leave this meeting; you buy news. And you don't buy stock certificates, but you buy safety and assured income, yes, and even thrills.

But, gentlemen, there are all kinds. Basically, it is the idea to get a little action in there. Remember the colored boy down South. Somebody said to him, "What would you do if you got a letter from the Ku Klux Klan?". He said, "Boss, I'd read it on the train." The moral is, Keep Moving, Keep Moving. Well, I could talk to you at some length on that, but I don't know enough about your business.

"Ask Questions That Make It Easy to Say Yes"

Number eleven is, "*Ask Questions that Make it Easy for the Other Fellow to Say 'Yes'.*" Now, of course, we are talking about the old Socratic method of selling. But there are many applications of that, fellows. Ask questions that make it easy for the other fellow to say "Yes." That reminds us of something, that the tools you work with are what? They are words. Do you realize that words are golden? Ah, Yes, they certainly are, because that is the thing with which you make sales. The average salesman uses about 35,000 words a day. Well, let's make them real words. Let's let them carry the full sales load. Let's organize our talk now.

That doesn't mean they have to be fancy words. Why, we hear the finest talk—and incidentally, gentlemen, if I had the right to give you, on a personal basis, any advice, it would be this, to take an effective speaking course. Why? Do I want to sell one? No, I haven't got anything to sell. Do I want more speeches? Lord knows, I don't; there are too many today. But it isn't that I would have more speeches; it is that I would have more effective selling. Because there is a crying need for better talk in business, better expression. The ability to talk naturally, easily, confidently, with assurance and poise, is a vital attribute to good selling.

My friends, it doesn't have to be fancy words. The best classic talk in this country is called the Gettysburg Address. How many words do you think are in that address? 265. And around 192 of those words are one-syllable words, and 52 of those words are two-syllable words. Local papers please copy.

It can be simple, solid and sincere. You confuse people by big words and by technical terms, and so forth. The average guy like me doesn't know what the hell you are talking about until you put it in basic English. Well, I think there is a lesson there for all of us. Let me give you an illustration of how people succeed with small words, and that they remember simple language. I am going to give you two words from five proverbs, and that is all I am to give you is the two words, and I'll bet all the tea in China that you can give me the rest of the proverb. I'll give you the first two words, and you give me the rest of it. "All's well"—

Audience: "—that ends well."

Mr. Strathern: "A stitch—"

Audience: "—in time saves nine."

Mr. Strathern: "A bird—"

Audience: "—in the hand is worth two in the bush."

Mr. Strathern: "A new—"

Audience: "— broom sweeps clean."

Mr. Strathern: "A miss—"

Audience: "— is as good as a mile."

Mr. Strathern: All one-syllable words. You see, we understand that kind of language. Now, my plea is that we remember that. You don't have to be a fancy speech-maker to be a good salesman, gentlemen. Nor, in my book, do you have to be a born salesman. I don't think there is any such bird as a born salesman, unless it is very rare, except in the sense that we are all born. Ask questions that make it easy for the other fellow to say "Yes."

"Don't Knock—It Destroys Confidence"

Number twelve is, "*Don't Knock—It Destroys Confidence.*" I have spent a good many years of my life trying to elevate this old game of selling. That is one of my little crusades, one of the things in which I think I can do some good. You don't become a professional salesman by knocking your competitor, believe me. Professional people don't do that.

"Use Observation"

Number Thirteen, and my last suggestion is, "*Use Observation.*" Now, we constantly say that you ought to treat people the way they want to be treated. How do you do that? Well, too many of us are still trying to read people's minds. Phrenology, bumps on the head, is no good, because if the prospect happens to keep his hat on, you are out of luck. Character analysis will get you nowhere. Some of you laugh, but you look at nine out of ten textbooks and you are going to see a chapter or two on contusions and bumps on the head. What a lot of baloney. I challenge anybody to tell me they use it effectively. You can't do it; you would just be guessing. And this is not an exact science, but it isn't guesswork.

How can you treat people the way they want? One of the ways you can find out is to ask them. It's silly, isn't it, but it is as simple as that. You ask them, and then listen to what they say and how they say it. And observation helps you to do that, gentlemen; observation helps you shoot straight. You can have an elephant gun and if your aim is no good, you won't kill a butterfly. We need to shoot with a rifle and not a shotgun in this business of selling. Observation helps us shoot straight. It keeps you on the mark; it helps you to hit hard. You know how to use it; there are many, many applications of the idea.

You represent good companies, with good solid ideas in back of you. But how straight do you shoot? That is the idea. And observation keeps you on the beam, helps you to shoot straight, observation by looking and observation by listening.

Well, now, gentlemen, there are a baker's dozen of suggestions for sympatico, simple, trite and obvious, as I have said before, but, gentlemen, those are the basic things that underlie good salesmanship. They remind us that we have to sell ourselves before we sell our service. And they are awfully easy to use.

But, gentlemen, I will submit—and I am thoroughly convinced—that while every man here understands that, because I have been talking in basic English, there is a vast difference between understanding and application. And sometimes, I am sure, that some of the fellows can go out and try some of those things and they won't work. Does that mean they are no good? It does not. It simply means that you haven't worked them in, welded them, blended them into your own selling personality. But, gentlemen, that is the job.

It simply means that we haven't tailored these things into our own selling personality. And it is tremendously important that you do, believe me.

Now, let me give you a simple idea, and it is awfully simple, but do you know that literally hundreds of salesmen from all over this country have said to me and written to me, "Well, that little simple idea works." I gave you a dozen suggestions, and I will give your secretary the suggestions right in this little book and he can have them typed up for you.

Put them on little three by five cards, each one. It takes five minutes to memorize them, just five minutes out of your busy day to memorize them; that's all it will take. "Learn to like people," "Have a friendly smile," "Be generous with honest praise," and so on. Then take number one, "Learn to like people," and put that on your desk or on the window ledge of your automobile if you are outdoors all day, or on the bureau at home, or on the bathroom mirror, somewhere where you can look at it. And practice number one for three days. Or you may not master it in three days to your entire satisfaction. But practice it for three days, and then go to the next one, "Have a friendly smile." Don't go around like a Cheshire cat, but consciously try to smile more often. And then the next one. And, gentlemen, you will find that these things are becoming a part of your standard equipment. The psychologists tell us that *if you do a thing 33 consecutive times it becomes a fixed habit.* Local papers please copy.

There is the idea. You can never say that I have talked about these ideas without giving you a way to follow through on it. It is as simple as that, and literally hundreds of fellows have said the damn thing works. You won't become perfect with it, but it will help you; it will help you to engrain these things into yourself a little more.

Hubert J. Soher on Extended Business Trip

Hubert J. Soher, partner in charge of research of Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco, members of the New York Stock Exchange, is now on a nine weeks' trip throughout the United States to study business conditions and national and international economies.

Mr. Soher, who makes these trips annually, will visit 200 corporation executives in 25 cities of the United States. Among others he will interview Cabinet members, leaders of organized labor, outstanding economists and bankers.

Sole Proprietorship

MEMPHIS, TENN.—Thomas Q. Galbreath is now doing business as an individual from offices in the Exchange Bldg. He was formerly a partner in T. Q. Galbreath & Son.

Del. Pwr. & Light Stock Offered—Blyth & Co. Underwrites Issue

Blyth & Co., Inc. heads an investment banking group which was high bidder at competitive sale March 3 for any unsubscribed portion of 232,520 additional shares of common stock to be offered by Delaware Power & Light Co. to its stockholders.

Subject to clearance by the Securities and Exchange Commission, the company plans to offer the new shares of common stock at $18.50 per share at the rate of one additional share for each five shares held of record Feb. 28 last. The subscription rights will expire on March 21. A limited secondary subscription right to employees at the same price will run concurrently with the stockholder offering.

Proceeds from the sale of the new stock will be used to finance a portion of the company's construction program. It is contemplated that the construction program will require expenditures of approximately $17,000,000 in 1949, $21,000,000 in 1950 and $15,000,000 in 1951.

During the years 1945 to 1948 inclusive the company paid regular quarterly dividends on the common stock at the rate of 25 cents per share. On Jan. 31, 1949, a quarterly dividend of 30 cents per share was paid. The next quarterly dividend of a record date early in April will be payable on the new shares for the full quarterly period even though the new stock will be outstanding only on or about March 25.

Total operating revenues for 1948 were $17,782,792 and net income amounted to $2,503,811. Giving effect to the sale of the additional common stock, the company will have outstanding 1,395,120 shares along with 90,000 shares of preferred stock. The company's funded debt amounts to $25,000,000.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—John J. Gardiner, Jr., is now with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—Ernest F. Hinkle is with Merrill Lynch, Pierce, Fenner & Beane, Wilcox Bldg.

Arguments for a Free Gold Market

(Continued from page 8)

standard," said the late Benjamin M. Anderson, "is to pay out gold on demand."[2] This is precisely what the Gold Standard Act of 1934 forbids. Under Section 6 the Act states categorically: "no currency of the United States shall be redeemed in gold."

This applies without exception to any citizen of the United States. Should he be so misguided as to contrive in some fashion to convert a part of his folding money into gold he could be punished under one prescribed penalty by the loss of all the gold involved plus an added amount equal to twice this value. Under another penalty he might suffer a fine of $10,000 and 10 years' imprisonment.

Professor Kemmerer, probably the foremost authority on the gold standard and until the time of his death active in the affairs of the Economists' National Committee on Monetary Policy, had this to say about the gold standard: "Although there are many types of the gold standard, the gold standard may be said to exist in any country in which prices of goods and the obligations of debtors are usually expressed in terms of the value of a monetary unit consisting *of a fixed quantity of gold in a free market*. The gold standard exists whenever the value of gold *in a free market* is the actual standard, regardless of the machinery by which the standard is maintained and regardless of whether this machinery operates automatically or is managed."[3]

In other words, the test of the gold standard is the ability of the individual unconditionally and without penalty to convert his currency into gold and then do anything with that gold he chooses, i.e., take it out of the country, hoard it, convert it into ornaments, or chuck it into the sea.

Literary Abduction

To be sure, under the liberties which have been taken in recent years with the English language it has become possible to apply the epithet "reactionary" to those who seek an honest currency and the preservation of freedom. It has become possible to apply "fascist," "war mongering," and "imperialist" to the United States and "peace loving," "democratic," and "progressive" to the Kremlin. With this precedent in literary abduction it is a simple feat to call our present currency arrangement the gold standard.

Such semantic acrobatics are to be expected from left-wingers. It is a bit shocking to find a spokesman for the conservative wing of American economists saying that "the fixity of our restricted international gold bullion provides us with enough of the basic elements of a thorough-going gold standard to make our monetary system much superior to most of those found in Europe and elsewhere. . . . Our fixed gold unit at $35 per fine ounce of gold contributes much to the stability and value of our money."[4]

The gold standard which is thus extolled is as phony as a Russian election. If the American dollar today ranks near the top of the world's currencies it is due to reasons which have nothing to do with those exceptional circumstances, i.e., "To settle international balances or to maintain the equal purchasing power of every kind of currency of the United States"[5] under which gold may be exported by the Federal Reserve Banks. This right, it should be noted, applies only to the Federal Reserve Banks and is not shared by any other institutions. It can be exercised by the individual with his own gold only under severe penalties of the law.

Reason for Dollar Esteem

The greater esteem in which the American dollar is held today is due primarily to the fact that this country, with 6% of the world's population, is nevertheless able to produce more than a third of its total output. It is strongly suspected that in both France and England, under managed currencies and contraceptive tax structures, savings have ceased. The socialist governments of these countries are dependent upon American aid to bridge the gap between their own output and the total required to maintain politically-tolerable living standards and that minimum of capital additions which gives their economics the semblance of vitality.

The productive impotence of ECA recipients which seems to vary directly with their socialist "progress" is relieved by resort to the fertile American market, sustained for the time being by vast grants at the expense of the American taxpayer. It is the greater availability of American goods and their lower cost which accounts for dollar demand and the preferred position of our unit in the world's exchanges. The putative merit of a fictitious gold standard has nothing to do with it. For the time being any foreign government with dollar credits would rather have steel and machine tools than gold bars.

Importance of a Free Market

Twice during Kemmerer's definition of a gold standard he made the validity of his definition rest upon the presence of a free gold market. Without such a free market the definition is meaningless. The author had the privilege of studying under Kemmerer both as an undergraduate and a graduate student. For a period of years, in direct association as an active colleague, he taught courses in money and banking. In his oral exposition no less than in his writing this great scholar emphasized the need for maintaining the currency holder's free choice.

The citizen with paper money must have the constant, unconditional right to convert this into gold. As the holder of the yellow metal he has the option of exchanging it for food, shelter and pleasure, converting it into ornaments or using it as a medium for his savings. A valid gold standard must safeguard this constant competition between monetary and non-monetary uses of the yellow metal, its present use by expenditure, and deferred use by saving. *A gold standard without a free market is no more possible than a game of football without a gridiron.* A free market is the field within which it demonstrates its value and its alternative functions.

This vital role of the free market is thoroughly understood by the technical echelons of the FRB, the Fund, and the Treasury. They recognize in such a free market the necessary prior step by which an honest currency, again fulfilling its definition as a stipulated quantity of gold, may be restored. They oppose such a free market not because they fear the fancied chaos which might result but because they know that it will jeopardize their power as the managers of our currency. They hold themselves the repositories of that wisdom and integrity which alone can assure the country a stable currency serving the progressive needs of an enlightened society. They fear that a free gold market will expose their pretensions, undermine their prestige, and ultimately end their special power.

Is it not wiser to defer a free market for gold until the government is ready to resume specie payments on the basis of $35 an ounce? It is a question asked by many sincere students who believe that a free gold market today might be premature, who apprehend an exhausting drain on the government's gold stocks, vast as they are, if specie payments are resumed.

Before considering this question it is well to note the size of our gold stocks and the presence or absence of conditions which might induce an exhaustion of American gold. For this purpose the following table is helpful. It shows total gold stocks at 10-year intervals for the last half century, the relation of those gold stocks to total immediate liabilities payable in gold and the portion of world gold stocks held in the United States. It is obvious from this table that our gold supplies in relation to potential claims are greater than they have been at any time in the past excepting only the years immediately following the higher valuation of gold in 1934. Our share of the world's gold is at a record level.

Monetary Gold Stock to Liabilities and Total World Stocks

(In Millions of Dollars)

Year:	*Total Currency	†Total Bank Deposits	Monetary Gold Stock	‡Ratio Gold Stock to Total Money Supply	World Monetary Gold	Ratio American to World Gold
1898	1,180	5,688	862	12.6%	4,485	19.2%
1908	2,466	12,785	1,618	10.6	6,552	24.7
1918	4,195	27,716	3,163	9.9	9,280	34.1
1928	4,510	53,245	4,109	7.1	11,100	37.0
1938	6,461	51,961	12,963	22.2	24,240	53.5
1948	28,329	146,860	24,166	13.8	34,400	70.3

*Does not include gold coin.
†All banks—U. S. excluding inter-bank deposits.
‡Currency plus deposits.

Yet it may seem to some students that a gold position that amounts to only 13.8% of total deposit and currency liabilities hardly affords a safe margin for a return to gold. In fact, a President of the United States, justifying the abrogation of the gold clause in a radio speech on May 7, 1933, pointed out that the government had $30 billion of debts and currency payable in gold, private corporations another $60 or $70 billion in securities and mortgages likewise payable in gold, and "that all of the gold in all of the world amounted to only about $11 billion."[6]

The answer, of course, is that the world has never had enough gold to meet all obligations payable in gold at the same time. The same point could be made about the $146.9 billion in deposits in our banks which are claims payable in currency on demand or short notice. The simultaneous demand for total payment on the part of all depositors would precipitate a crisis, the FDIC and the supply of Federal Reserve currency notwithstanding. No one suggests the abandonment of banks of deposit for this reason.

The same point might be made for life insurance companies which are in no position to meet more than a fraction of the cash values of outstanding policies without liquidation. No one has suggested that life insurance be prohibited because the companies can never have enough cash on hand to meet a theoretical maximum of claims.

In addition to the size of total potential claims against a country's gold, two other factors have a bearing on the adequacy of such stocks. The first is the trade balance of a country. A persistent net import balance means a continuous strain on hard currency resources or gold if the country is on a gold standard. On the other hand, a persistent net export balance correspondingly reduces the hazard to gold stocks. Our net export balance is currently running at the rate of $5.5 billion a year. For the last 10 years our aggregate export balance has amounted to $54.0 billion.

The second factor is the political condition of the country. Violence and disorders, a government hostile to wealth, an unbalanced budget, and continued inflation are all conditions which cause men to search for safer havens. This country, in terms of these criteria of security, has deteriorated during the last generation. The rest of the world, with few exceptions, has fallen still further. In the universal fool's progress toward moral and fiscal abasement this country has lagged behind the other members of the world family. The dollar, therefore, is still preeminent.

Real Fear

In spite of these observations the fear for our gold stocks in the event of specie resumption is real. Since the hazards to which they would be exposed are partly psychological, it would be rash to say that they could withstand the unconditional access which a gold standard would entail.

There is also no blinking the fact that a great deal of economic water has gone over the dam since gold was fixed at $35 an ounce in January, 1934. At that time hogs were worth $5 a hundred, corn 40 cents a bushel, cotton 12 cents a pound, and timber $25 a thousand. A good mechanic could be hired for 75 cents an hour. Since then, with the exception of aluminum and electric power, almost everything has gone up in price—even the President's expense allowance. In the interval a great war has added $230 billion to the public debt. Our bank deposits have gained $110 billion, a rise of 300%, and our currency in the hands of the public $23 billion, a gain of 410%. If similar upheavals in the past are any guide it is most unlikely that money will recover the general purchasing power which it had 15 years ago.

Under the circumstances no one can know what a proper basis for a return to the gold standard should be. There is a sound practical way to find out. Repeal the silly penalties on the possession of gold. Permit all gold currently produced or imported to be traded in an open market. Let buyers and sellers, casting their free votes in the form of bids and offers in an authentic economic town meeting, determine the value of the yellow metal.

If after a probationary period of some years the price of gold revolves about a $35 axis, then it will obviously be safe for the government to open the doors of its mints and redeem at the statutory rate whatever paper currency is offered.

If, on the other hand, the price of gold in such an open market tends to fluctuate above and below a $50 line, it would obviously be foolhardy to try specie resumption on a $35 basis. Pending such an experiment, the government can retain its gold stocks.

Precedent

There is persuasive precedent for this action. England abandoned the gold standard in August, 1914. It returned to gold on April 28, 1925, and was again forced off the standard on Sept. 21, 1931. The experience was unhappy. It was unhappy because in the interval between the end of the First World War and the return to gold England had the benefit of a free gold market whose verdict for reasons of national pride it chose to ignore.

The pound at that time had a statutory gold content of 123.27447 grains of gold eleven-twelfths fine. This was 4.86656 times the gold content of the American dollar, a ratio which was therefore the par of exchange between the two currencies. When sterling was unpegged in the fall of 1919 gold immediately rose to a premium, reaching a peak of almost 50% for the month of February, 1920. The average premium for gold that year was 33.2%. In 1924, the year prior to resumption, gold traded at an average premium of 10.1%, indicating strongly that a return to the old par would overvalue the pound and undervalue gold.

This advice of the free market England's leaders chose to ignore. As a result her export industries were placed at an immediate disadvantage. With her domestic prices unchanged it meant the foreign buyer of English goods had to pay approximately 10% more in his own currency than he did in the preceding year. The only possible way to compensate for this was through an increase in English productive efficiency or a decline in English wages, neither of which proved possible.

England's Plight

Had England heeded the clear verdict of her free market in gold she would have returned to some lower parity with the dollar possibly $4.25 instead of the prewar level. Her failure to do so left the Bank of England struggling to protect her gold reserves and induced chronic unemployment in her export industries. An eminent English authority, Professor T. E. Gregory, describes England's plight:

"The first effect of the rise in the value of sterling naturally was to cause staple exports to fall off in value and volume, thereby creating unemployment in those industries, and as time went on, to cause the level of wages in these trades to fall substantially below the general level. . . . Great Britain's exporting capacity was prejudiced, partly by the fact that her predominant prewar export industries were being subjected to special difficulties and partly by the rise in the external value of sterling, which not only accentuated the pressure on these particular industries but hampered the possibilities of expansion of the other exporting industries."[7]

The end of this stubborn refusal to accept the instruction of a free market was a dramatic confession of insolvency on Sept. 21, 1931.

Would "a higher price for gold . . . impair our monetary standard"? The precise reverse occurred in Great Britain. It was a lower price for gold than the free market indicated which was the cause of England's financial humiliation.

It is asserted that any break in the fixed link between gold and paper money, assuming that such a link is currently real in the United States, would cause gold to rise and paper money to decline in value. "This is simply because paper is paper and gold is gold. . . . It matters not what the size of the unit may be; if a paper money, linked directly or indirectly with gold, at a fixed rate, is cut loose from gold at that rate the price of gold will rise."

An apparition of continuous progressive inflation is conjured up should we permit a free gold market to guide us to the proper basis for specie resumption. Nothing of the kind happened in England. Actually gold was worth less in 1924, the year before resumption, than in 1920, the first full year after the pegs had been re-

2 Benjamin M. Anderson *The Chase Economic Bulletin*, Nov. 20, 1931, p. 14.

3 E. W. Kemmerer, "Currency Stabilization in Latin America," *Fourth Pan American Commercial Conference*, p. 2, Oct. 6, 1931.

4 Walter E. Spahr, *op. cit.*

5 Provisional Regulations, *Gold Reserve Act of 1934*, Sec. 28.

6 Franklin D. Roosevelt, "On Our Way," p. 78.

7 T. E. Gregory, "The Gold Standard and Its Future," E. P. Dutton & Co., New York, 1935, pp. 42-43.

moved. The average annual premium on gold in 1920 was 33.2% and in 1924 10.1%. England did not suffer because she had a free gold market but rather because having such a market she ignored its judgment.

The Greenback Experience

Another lesson with a similar meaning but a happier result is provided by the Greenback period of 1862-78. Like many other governments before and since, Congress confronted by the mounting costs of war, was unable to collect the revenue or borrow the money with which to pay the urgent bills of a nation fighting for its life. It authorized the issue of an irredeemable paper currency and promptly abandoned the gold standard.

There immediately developed in New York an open market in gold. The discount of the greenbacks and the rising premium on gold proved disconcerting to our legislators and particularly to the Secretary of the Treasury, Salmon P. Chase. The premium, it was believed, was due to speculation and speculation in turn to treason.

The story of this experience is told in one of the classics of economic literature, *A History of the Greenbacks*, by Wesley C. Mitchell, with which every student of money is familiar. Speaking of the various attempts to cure the premium on gold and their failure, Mitchell says the reason is clear. "They were based on the assumption that speculators had increased the value of gold—while the fact was rather that the government's notes had fallen in common esteem."[8]

When Congress reluctantly considered a bill to close the gold market, Senator Colamer remarked: "Gold does not fluctuate in price . . . because they gamble in it; but they gamble in it because it fluctuates. . . . But the fluctuation is not in the gold; the fluctuation is in the currency, and it is a fluctuation utterly beyond the control of individuals."[9]

These are observations which should be noted in appraising the prediction of monetary catastrophe if a free gold market should now be authorized, i.e., "Chaos in prices, production, and foreign exchange rates would be the natural results."

With much misgiving Congress passed a bill to close the Gold Exchange to take effect on June 21, 1864. Mitchell refers to the passage of this bill as "the gold bill blunder."[10] The closing of the gold room paralyzed trade and created an immediate demand for the repeal of the bill. Rather than admit the consequences of his folly Chase resigned. The bill for repeal was passed on July 1 without debate and the gold room was reopened for business on July 5.

Gold trading had been suspended for approximately two weeks. In commenting on the repeal Senator Johnson said: "the gold bill is doing nothing but mischief; . . . it has had its trial and has failed to produce anything but mischief."[11]

8 Wesley C. Mitchell, "A History of the Greenbacks," University of Chicago Press, Chicago, 1903, p. 228.
9 *Ibid* pp. 229-30.
10 *Ibid* p. 232.

Quite a different impression of this episode is left in the argument [by Dr. Walter E. Spahr] against a free gold market appearing in the "Commercial and Financial Chronicle" (Jan. 20, 1949). "Should Congress authorize the free gold market recommended by the gold block, it is reasonable to suppose that in a relatively short time Congress would be frantically attempting to curb the gyrations in prices for gold and other things after the manner of the worried Congress of 1863 and 1864 when it attempted (1863) to control the premiums on gold and when it repealed (1864) the law authorizing a free gold market."

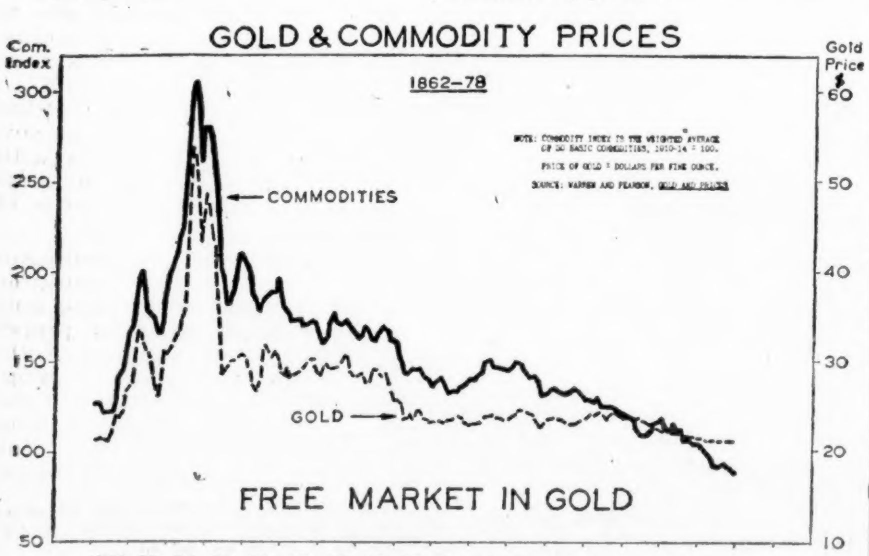
This account fails to note that Congress quickly corrected its mistake, that a free gold market continued until December, 1878, that it provided a sure guide for John Sherman in resuming specie payments on Jan. 1, 1879. Congress had authorized such resumption in January, 1875. As the day for redemption approached, the premium on gold declined until on Dec. 17, 1878, it disappeared entirely and the Gold Exchange closed its doors. "On Jan. 1, 1879, the Treasury offered to redeem its legal tender notes, but none were presented for that purpose."[12] This country remained on the gold standard until March 9, 1933.

How serious were the gyrations of gold during this greenback period? The accompanying chart shows the premium on gold and an index of 30 basic commodities. It will be seen that the price of gold merely reflected, as so many members of the Civil War Congress suspected, the changing purchasing power of the paper dollar. The price of gold faithfully mirrors all the major and most of the minor fluctuations in prices with identical timing.

A free market for gold is a form of free speech. It gives the voter, the trader, the speculator a chance to pass judgment on the fiscal conduct of his government. If Henry Wallace were our Secretary of the Treasury instead of John Snyder and, with adequate political support, proposed an "abundance budget" of $54 billion, such a market would immediately render an unmistakable opinion in the form of a higher premium for gold. It would in effect be a vote of "no confidence" in the government. While this might annoy Congress and the Administration, it is hardly a valid indictment of a free gold market.

In view of all that has happened since 1934 a free gold market is the necessary prelude to an honest gold standard. It is the only practical way to restore such a standard without running the risk of a grave miscalculation such as England committed in 1925. *Those who through a blind economic fundamentalism resist this procedure are effectually barring the return of gold.*

11 *Idem.*
12 Horace White, "Money and Banking," 5th Edition, Ginn and Company, Boston 1914, p. 157.



Causes of Devaluation

The experience of England in the period 1919-25 and this country during 1862-79 proves conclusively that the presence of a free gold market does not lead to the progressive deterioration of the monetary unit. The fear that such a market will set the stage for a succession of devaluations is without foundation.

This country has had one experience in devaluation. It occurred immediately after the advent of the Roosevelt administration and was conscious in purpose and deliberate in procedure. The gold content of the dollar was reduced from 25.8 grains of gold 9/10 fine to 15 5/21 grains of similar fineness. *This devaluation had no relation whatsoever to a free gold market. In fact, throughout this period an open market in gold was prohibited under severe penalties, a situation which has prevailed ever since.*

Devaluation on this occasion, as has been pointed out in other *Letters*, was the result of a theory that prices could be controlled by varying the gold content of the dollar. The country in 1933 was still struggling with an intractable depression and the new Administration felt that drastic, even unorthodox remedies must be given a trial. *It was the absence of a free market in gold which facilitated the consummation of monetary heresy.*

Devaluations are not caused by free markets in anything, let alone gold. They are in almost every instance the belated recognition of an irrevocable currency depreciation which is due to obvious, logical causes. Currency declines in value because there is too much of it. It is a law of value which applies to everything. The same forces which cause wheat to decline operate on currency. Monetary students have long recognized this fact. Only when diverted by special obsessions or partisan contention do they think of some extraneous factor such as a free market for gold.

Fever Chart?

Will a free market for gold constitute a "fever chart" calling public attention to the course of inflation and thus aggravate it? It is reasonably certain that a free market will show a substantial premium for gold. On the Toronto Exchange gold coins are freely traded. An American double eagle, a trifle less than an ounce of pure gold, has a bid and asked range of $45-52.

Incidentally, the Canadian Government has tolerated such a market without going into a financial tailspin.

In New York under Section 19 of the Treasury's *Provisional Regulations* under the *Gold Reserve Act of 1934*, trading is permitted natural gold. This is unsmelted, unrefined gold in the form of nuggets, flakes and dust. The firm of Bache & Co. provides a market which deals in contracts of 100 ounces on an 83% fine basis. Such gold is trading at $39-40 an ounce. On a 100% fine basis this represents a price of approximately $45 an ounce.

At the end of the year gold in Zurich was selling for $43 an ounce, in Lisbon and Stockholm at $45; in Mexico City at $53; in Paris at $57; in Berlin at $62; in Buenos Aires at $68.50; in Cairo at $72; in Bombay at $92; and in Chunking at $100.

Certainly a free market for gold will be a fluctuating market as are the markets for everything else that is not nailed down by government ukase. Even when the government applies the full force of its authority as it did under the OPA, any marked difference between official and natural values leads to so-called black markets. The term "black" is applied by frustrated officials who confuse the defiance of their edicts by otherwise free citizens with a reprehensible evasion of duty.

Actually black markets are honest forums of value operating under artificial handicaps. When Russia openly confessed the failure of its managed currency policy in December, 1947, by seizing 90% of all cash, 50% of all deposits, and 66⅔% of all outstanding bonds, prices showed an inflation of 12 to 15 times prewar levels. *This deterioration in the currency was achieved without the benefit of a free market in gold.*

Price fluctuation in a free market is the delicate and automatic mechanism by which supply and demand are equated to permit the actual transfer of the units offered for sale. There is no question but that a free market for gold will mean a fluctuating market. In the beginning this may have some effect on public psychology. That it will cause any change in the general purchasing power of the dollar is open to question.

During the past decade that dollar has undergone great changes in purchasing power measured on scores of "fever charts." Many of these charts are maintained by the government itself as a valuable service for the information of business and the general public. The monthly *Federal Reserve Bulletin*, the *Survey of Current Business*, to mention only two, are virtually solid compendiums of fever charts, almost all of which have a direct or indirect bearing on the value of the dollar.

The indices of consumers' prices compiled by the National Industrial Conference Board and the U. S. Department of Labor vividly and periodically portray the changes in the value of the dollar. The "Wall Street Journal" maintains an index of futures, a highly sensitive fever line of conditions which are being anticipated by traders and speculators.

An Orderly World Market in Gold

Actually all these yardsticks of changing value promote that effective art of living which is defined as an adjustment to the probable. In fact it is in the areas in which no markets or only poor markets prevail that price changes are most violent and lease predictable.

An open market in gold in this country, operating with legal sanction, would be the focus for the trading of vast quantities of gold. It would tend to reduce the great disparities which now prevail between Bombay and Paris, Buenos Aires and Karachi, natural gold, goin coins and pure gold.

It would do more. It would provide a forum in which the conglomerate currencies of the world would find a valid common denominator of value. It would explode effectively the fantastic fiction that currency relationships can be maintained at the approximate levels prevailing on July 1, 1944.

It would relieve this country of the cost and risk involved in maintaining the International Monetary Fund. *This Bretton Woods offspring was conceived in error and dedicated to fallacy.* The error lay in the premise that this country by financial *force majeure* could maintain the relative values of currencies as pegged in the midst of a great war, irrespective of the budgetary practices, the fiscal policies and the trade balances of the countries which are members of the Fund.

The fallacy inheres in the faith, typical of planners, that a group of men could be found sufficiently infallible and incorruptible to maintain in approximate fixed ratios to each other some 40 to 50 distinct variables, each responding to forces beyond the control of the Fund's top command. The effort of Canute on the shore of the sea was modest by comparison.

A Record

Let those who fear that a free gold market might be inflationary consider the record of the past 10 years. *There was no free gold market during that period.* The price of food between January, 1939, and the end of June, 1948, rose 116.9%; clothing 56.2%; housefurnishings 56.1%; construction costs 107%; wages 104%.

The purchasing power of the dollar in terms of living costs fell 42% in this period; in terms of wholesale prices 54%; in terms of wages 53%. It must be apparent even to those who are not professional economists that inflation is the result of forces that have little to do with a free gold market.

Actually a free gold market in addition to its moral value in restoring a vital portion of its stolen freedom to the American public and its economic value in permitting the honest evaluation of currencies in a competent open forum will *tend* to check the forces of inflation, *promote* stability and *facilitate* the management of the public debt. This is a qualified statement. A free gold market will not eliminate inflation, will not guarantee stability, will not remove the problem presented by a huge public debt. Its influence cannot be absolute.

Treasury Purchase of Gold Inflationary

Consider the effect of the present procedures in the acquisition of gold by the Treasury. During the calendar year 1948 the gold stocks of the United States increased by $1,490 million, of which approximately 5% or $75 million was accounted for by domestic production. The gold which found its way into our Treasury exceeded the total world production for the period by 102%.

As this gold enters the Treasury the Federal Reserve Bank is credited with the proceeds in special accounts established under Section 16 of the *Federal Reserve Act*. "Balances in such accounts shall be payable in gold certificates." These gold certificates constitute thereafter a part of the nation's basic reserve.

Under the law the Federal Reserve Banks may expand their liabilities in the form of notes and deposits up to four times this basic reserve. In other words, the sale of the gold to the Treasury permits a *potential* expansion of the central bank's credit equal to 400% of gold involved. The credit of the central bank in turn when used by the member banks has a *potential* expansion ratio of approximately six times.

This means that the sale of a million dollars of gold to the Treasury creates a *potential* expansion 24 times as great in the commercial banking system. It is beside the point to argue that the Treasury and the Federal Reserve banks will not utilize this highly combustible inflation base in the manner outlined. *The truth is that they can if they wish to.*

Compensatory Measures

In fact the Federal Reserve Banks are forced at once to take measures to offset the inflationary impact of this gold purchase. The American producer who has sold a million dollars worth of gold to the Treasury is paid with a Treasury draft which he deposits in his own bank. The bank in turn sends it into the nearest Federal Reserve Bank where its reserve account is credited with the million dollars.

That bank has received a net addition to its reserve account against which it may make loans and increase its own deposits. The present rule of thumb expansion ratio is sixfold. In order to offset this possible credit expansion, the Reserve Bank dips into its portfolio of government securities and sells an equivalent amount.

The checks which the buyers offer for these securities are drawn against commercial banks and when cleared through the Federal Reserve Bank are charged against the reserve balances of the commercial banks, thus reducing them back to the point where they were before the gold producer sold his million of gold to the Treasury.

(Continued on page 34)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Grudging retreat possible, though base for long-term advance may be built while this is going on.

I've spent the past week poring over ticker tape, broad tape, news reports and even given some time to earnings and annual statements in an effort to get a peek behind the curtain. For all the good I got out of it I might as well have gone to the movies.

* * *

I know for example that the popular Dow averages have indicated, if not signaled, a bear market. The rails have twice penetrated their old lows and the industrials have kind of pinpricked their old lows by a small fraction. But if I know it, thousands of other observers know it too. And with the effect these observers have on their following, the chances are that the implications of the Dow theory are a widely accepted fact today.

* * *

But because it is widely accepted I'm beginning to think that its impact will be lessened or even completely dissipated. In fact most of the news today, unless it is truly surprising news, is meaningless. This doesn't mean that there isn't, or won't be, a psychological reflection. The rank file dominated by hopes and fears will continue to act on news.

* * *

It does mean, however, that the news from here on, even though it is likely to be poor, may have been discounted by the very fact that stock prices have reflected the good news we have been reading for the past few weeks. Company after company reporting its earnings has shown surprising income. Yet, in only rare cases, has this been reflected in comparative improvement in the company's stock. On the other hand, let a piece of bad news come out and right away there is a dip in the stock.

* * *

That such action indicates a lower market is widely accepted as a fact today. But because it is so widely accepted it is quite illogically possible that the reverse will be true.

* * *

So I've come to the conclusion that even though business reports will probably get worse in the immediate and near future, stock prices will not go down as much as first indications showed. I can see lower prices, but I can also see further retreat stubbornly resisted by buying orders based on a knowledge of things we know little about.

* * *

Some signs of this resistance are now appearing in tool machine stocks and in a few other groups. This kind of resistance doesn't mean that present lows, or even recent ones, will hold. It is quite likely stocks will decline still more in the next few weeks. But these declines may well offer opportunities we'll be able to recognize later only in retrospect.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Business Man's Bookshelf

Estate Planning and Education — 1949 Edition — Concerning bequests, trusts and special gifts—Pomona College, Claremont, Calif. paper.

Must We Have Food Surpluses? —National Planning Association, 800 Twenty-first Street, N. W., Washington 6, D. C.—paper—50¢.

Sources of Business Information —Edwin T. Coman, Jr.—Prentice-Hall, Inc., 70 Fifth Avenue, New York 11, N. Y.—cloth—$6.

Scadding Rejoins Otis

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Frederick C. Scadding, Jr., has rejoined Otis & Co., Terminal Tower. He has recently been with the Cleveland office of Field, Richards & Co. as manager of the investment analysis department.

F. R. Bailey & Co. Formed

NEWARK, N. J.—F. R. Bailey is forming F. R. Bailey & Co. with offices at 810 Broad Street to engage in the securities business. Mr. Bailey was previously with C. D. Robbins & Co.

C. T. G. Manners Opens

ST. JOSEPH, MO.—Christopher T. G. Manners is engaging in a securities business from offices in the Corby Bldg. Mr. Manners was previously with McDonald & Co.

Arguments for a Free Gold Market

(Continued from page 33)

Undermining Bond Market Supports

The trouble with this procedure is that it undermines the ability of the Federal Reserve Banks to support the government bond market. During the period of rising commodity prices, which seems to have come to an end for the time being, the Federal Reserve Banks tried to make money scarce by raising the interest rate.

Long term bond prices traded on a yield basis immediately reflect in their price any changes in the money rate. As the result of a firmer money policy, the prices of long term government bonds weakened.

Banks and insurance companies sold substantial quantities of these bonds for two reasons: To avoid a decline in the market value of their assets and to employ their funds more profitably elsewhere. The government did not wish to see the market for its own I O U's decline—too far. It might some day be necessary to resort to that market again to float substantial issues. In order to preserve that market it had to be supported.

At least so the government reasoned. With either a depression or war as distinct possibilities during the current Administration, the Treasury could not afford an open market for bonds in which they might repeat the experience of 1920 when government securities for a brief period sold at a discount of almost 20%.

The Administration was confronted with this dilemma — to raise money rates in order to discourage the growth of credit and at the same time maintain the market value of long term government bonds in order to enable the Treasury to tap that market again when necessary.

Managing the Public Debt

The government succeeded in having its cake and eating it by this expedient. The Federal Reserve Banks were instructed to buy all government bonds necessary to make the pegged prices effective. During the calendar year 1948 the Reserve Banks bought more than $8 billion of long term government bonds to support the market.

Here again the purchase of these bonds by the central bank released credit to the commercial banks of an equal amount which might prove inflationary at the very moment that the government was trying to apply the brakes on rising prices. In order to compensate for this release of central bank credit the Federal Reserve Banks sold short term government paper in equal amount.

This may seem complicated to the layman but it means that the degree to which this support of the government long term bond market is possible depends upon the Federal Reserve Bank supply of short term paper. To the extent that this short term paper is used in compensating for the inflationary potential of purchased gold, to that extent precisely does the ability of the Federal Reserve Banks to support the government long term market suffer.

In other words, the present method of exclusive gold purchase by a Treasury, which does not need it, undermines its ability to manage the public debt. It would be good Treasury policy to permit private buyers in an open market to absorb the gold which is being offered. Assuming the support of the government bond market to be desirable—a moot question—this responsibility can be carried with a greater margin of safety if the Treasury is not required to purchase gold. During the past year such purchases amounted to approximately $1.5 billion.

A free gold market would serve public policy, particularly central bank and Treasury policy, in another way. During the 10-year period ending in December, 1948, the total of coins and paper money in circulation increased approximately four-fold. In that same period large denomination currency, i.e., $50 and over, increased five-fold. Large denomination currency outstanding at the end of the year amounted to $8,697 million. This is more than twice the total amount of all currency outstanding at the end of 1920. Large denominations account for almost a third of our total currency.

It is obvious that much of this is hoarding on the part of individuals who may confuse liquidity with security or simply hold cash for want of a better haven. When more than $700 million of thousand-dollar notes and more than $5,000 million of hundred-dollar notes are in the hands of the public, we may be sure that they are not being used in the settlement of business transactions. It is a striking index of fear.

If a free market in gold were restored with annual supplies running in the billions it is probable that much of this hoarded currency would be exchanged for the yellow metal. This currency would then find its way back to the central bank where it could be retired and thereby reduce a part of the total money supply. Furthermore, to the extent that other money of smaller denominations is used for the purchase of gold and retired, the total circulating media would shrink. If the quantity theory of money has any validity this decline in the amount of currency would tend to increase the purchasing power of the remaining money and tend to check a rise in prices.

Much of the gold coming into such a free market would unquestionably come from abroad. During the past year 95% of the Treasury purchases consisted of foreign gold sold by governments desperately in need of dollars. If a free market is organized this gold will be sold to private buyers. To the extent that the price paid exceeds $35 an ounce the sellers will have that much more in dollar credits. The excess will come out of private purses voluntarily and constitute a contribution to world recovery not financed by the general funds to the Treasury and underwritten by the taxpayers of this country. Is this not a sounder provision of aid than appropriations by Congress?

Thus, a free market for gold in addition to being a horse sense first step to the return of an honest gold standard, carries definite advantages in the form of a common denominator for world currencies, as an aid to the Treasury in the management of the public debt, as an inflation deterrent, and as a stimulant to foreign economies not underwritten by Uncle Sam. It will correct a gross injustice to the gold producer. It will restore to the American an essential right, a right that should never have been taken from him.

Free markets are anathema to dictators and planners. In a free market the individual records his choice. Whether a buyer or seller, he expresses a valuation made in the light of circumstances that affect his own interest.

It is an independence which neither the dictator nor the planner can tolerate. It imposes a limit on the power of the dictator and cramps the designs of the planner.

Particularly is this true of gold. The man who buys gold and hoards it is saying in effect: "I trust the value of gold more than the promises of my government." It protects the workers' savings against the chicanery of Finance Ministers, the designs of planners, the infirmity of governments.

How Low Might the Stock Market Go?

(Continued from page 3)

parison indicates that the next market low might be 42% below the 1946 peak of 212.50, which would be 124 on the Dow-Jones Industrial Average.

Few investors realize yet that a major increase in corporate earnings can be more than a temporary phenomenon. Everyone is aware that in years of prosperity earnings are high and in years of depression earnings are low. However, it is equally a fact that, superimposed on this cyclical fluctuation, there is a long-term upward trend.

The trend of population is upward. Because of the increasing use of power machinery, the trend of output per man hour is upward. The long-term trend of prices charged for goods produced is also upward. These trends combined produce an upward trend in national income, which is surprisingly rapid. Before the first World War, national income had never exceeded the $45 billion rate of 1916. Between wars, the peak was $83 billion in 1929. Now the current rate is $223 billion. In the future, national income may be more or less than the current rate; but economists agree that it cannot ever shrink back to the 1929 rate even at the nadir of a severe depression. Because national income is higher, sales volume of corporations is higher.

It can not be expected that sales of existing corporations will increase as fast as national income, because some of the sales will be made by new corporations, but at least most of the national income increase is normally reflected in increased sales volume for existing corporations. Likewise, corporate profits may not increase quite as much as corporate sales; but over a period of years much of the increase is reflected in profits. The conclusion can be drawn, that increased national income is permanent, and therefore, the increased earnings shown in Table I may not be entirely a temporary phenomenon.

For example, the net worth per share for Goodyear at the beginning of 1938 was $26 a share; but now because of retained earnings it has grown to $83 a share. By computing the same figures for all stocks used in the Dow-Jones Industrial Average, it is found that the average net worth has grown 54% since that day in 1938 when the market reached its major low point at 98.

The increase in assets per share stated on corporate balance sheets is not the whole story; because these assets are stated at cost less depreciation rather than replacement value less depreciation. It is well known that replacement costs are now very much greater, because of the shrinkage of the purchasing power of the dollar. The U. S. Bureau of Statistics Cost of Living Index rose from 101.3 in March 1938 to 114.3 in April 1942 and to 171.4 in December 1948. Therefore, if corporations stated their assets at replacement value less depreciation rather than cost less depreciation, the net worth per share would be not just 54% greater but about 100% greater than it was in March 1938. That is to say, stock prices are lower now in relation to replacement cost of assets than they were when the Dow-Jones Industrial Average recorded its major low at 98 in March 1938. In fact, it may be that stock prices are lower now in relation to replacement costs than ever before in the history of the market.

The next deflation may not be so great as those which occurred before the government began to interfere so extensively in economic and business matters. In the ten years ending with 1940, unemployment ranged between a

maximum of 16 million and a minimum of 7 million persons; but if it now rises even to the figure of 7 million recorded in the most prosperous year of the prewar decade there is likely to be a great and irresistible popular demand that the government do something about it. The present government probably would not know what to do, except to spend more and more money.

Furthermore anything more than a temporary deflation in hourly wage rates is unlikely. The labor unions are now too strong to permit it. Union members have become accustomed to an increase in the wage scale every year or two; and there is little prospect that they will abandon this psychology. If the government hires the unemployed and if wage rates remain high, then it follows automatically that gross national production is less subject to deflation than formerly. In fact, at the nadir of the next depression, gross national production may still be twice as great in dollar value as it was in 1929. Of course this is caused largely by the inflation which has been frozen into the national economy. But then investors should remember that this means a new plateau for corporation sales in terms of depreciated dollars and possibly also for corporation earnings and share prices.

Many businessmen doubt that the government can meet all its obligations to maintain farm prices, guarantee bank deposits, prevent unemployment, etc. But as long as Congress authorizes the Treasury to borrow from the Federal Reserve, there can be no doubt about the ability of the government to prevent deflation. When the government begins to try to support a larger and larger percentage of the population the result may be chaos but it will not be deflation.

In the United States the people still hate depression more than they hate inflation. Probably only a great catastrophe can reverse this psychology. Therefore, there are grounds for thinking that the next depression may not be so deep or so long as the last.

Many wealthy men hesitate to purchase shares in corporations because of the political trend toward socialism in the United States. This trend is the most serious problem of our generation. However we are not nearly so far down that road as England, France, Sweden, and Italy—yet in those countries stock exchange prices are not low. In fact, by comparison with the United States, share prices in Europe in relation to earnings are remarkably high.

The foregoing observations lead to the conclusion that the Dow-Jones Industrial Average may never again sell as low as 98. When we look back ten years from now, the present level of 172 will probably appear to be a bargain level. This conclusion is reinforced by the chart printed herewith, which shows the trend of stock prices since 1900.

Railroad Investments—A Selective Market

(Continued from page 4)

itself has engaged in aggressive debt retirement programs in recent years.

Rail Debt Reduction

Since the peak was reached in 1932 railroad debt, including equipment obligations, has been reduced by some $3 billion. During the same period the railroads have spent more than $7¼ billion on additions and betterments. This is in addition to maintenance outlays. During this same period, also, net working capital has been increased by approximately $1½ billion. These two items alone are in excess of the entire debt, including equipments, of the Class I carriers.

Some of the debt reduction has naturally come about through reorganization of bankrupt and receivership railroads. A large majority of the solvent carriers have also been reducing their debts. Since the end of 1940 many have cut their funded obligations by a third to a half, including Santa Fe, Delaware & Hudson, Great Northern, Illinois Central and Union Pacific, to name a few of the more prominent.

Debt retirement has been augmented by lower coupon refunding operations, particularly during the favorable bond market conditions existing in 1945 and 1946. The cumulative result has been a reduction in fixed charges to an annual rate of approximately $430 million. As recently as 1942 fixed requirements were in excess of $660 million.

On the record this can hardly be characterized as a decadent industry. It is still admittedly the backbone of our national transportation system. Gross revenues last year amounted to about $9.7 billions. This was $200 million above the war peak hit in 1944. Net income is estimated at $711 million. This will be 48% above net income for the preceding year and will compare with a net of $480 million realized in the prewar year 1941. This latter was considered at the time to be a very good year for the railroads. As a matter of fact, the general picture last year was even better than would be indicated by the 1941-1948 comparison of industry results. Pennsylvania Railroad and New York Central, which account for nearly 20% of the entire industry gross, realized smaller profits last year than in 1941.

The Rail Outlook

The present year has started off rather mixed. I had believed, and I think with considerable justification, that the troubles of many of the western roads in the first two months of the year were generally known. Certainly the severe snow storms which in many instances completely disrupted rail and highway travel had been well publicized. Nevertheless, when January reports for such roads as Southern Pacific and Union Pacific were released they brought on a renewed wave of selling throughout the rail list. The press gave considerable prominence to these poor reports. The favorable year-to-year comparisons predominating in other sections not affected by severe weather were much less widely publicized, and certainly had no market influence.

For the first seven weeks of the year car loadings were off by 9.2% from the like 1948 interim, a decline of just short of half a million cars. It is notable that 38% of this decline was accounted for by one commodity, coal. Some of the decline in coal may be traced to a drop in exports and some, perhaps to the decline in general business. By far the most important consideration, however, was the purely temporary influence of unusually mild weather in the eastern part of the country. Another unfavorable, but also obviously temporary, traffic influence was the piling up of snow in the western part of the country. If one allows for these temporary influences it can certainly not be considered that there has been any sizable deterioration in the railroad traffic level.

Over the near term, traffic comparisons with a year ago will almost certainly be considerably more favorable than they have been recently. The comparisons will be with the period of the extended coal strike last year and a period when there were plant shut-downs because of fuel shortages. Also, grain loadings are picking up and the prospects are that they will continue to do so. Carry-over grain is much heavier than it was a year ago, and the government has indicated its intention of moving as much of it as possible before the new crops start to come in. So far as it is possible to judge at this time, growing conditions are good for another year of heavy yields.

All in all, present general conditions indicate no more than a moderate decline in railroad freight traffic for the full year 1949. With the interim increase in rates effective in January, gross revenues for the year should at worst hold close to those of 1948.

For a large number of roads the most recent rate increase will more than cover the most recent wage increases, not counting the proposed 40-hour week for non-operating unions. This 40-hour week can hardly have any great influence on 1949 earnings. Fuel costs are down. For fuel oil the drop has amounted to nearly a third in some sections of the country. Presumably this trend will continue, and the same should be true of material costs.

Last year the carriers spent $1¼ billion on additions and betterments to plant and equipment. The full economies expected to result from these expenditures naturally were not realized in 1948. The cumulative benefits will be reaped this year. Finally, the railroads have put on considerable fat in recent years and should be in a position to institute rigorous economies if necessary. On the basis of all of the above considerations it is difficult to visualize any sharp drop in earnings this year, despite the dire predictions being made in connection with the request for higher rates.

One of the most frequently cited reasons for bearishness toward railroad securities is the rigidity, and upward spiral, of wages. Incidentally, this question of wages is also one of the most important reasons why it is impossible to look upon the rails as a single investment problem.

The Wage Ratio

The long-term record of the industry as such has been characterized by a stable level of aggregate wages in relation to gross revenues. Throughout the entire period from 1921 through 1941 the proportion of revenues absorbed by wages fluctuated between a high of 50.1% and a low of 45.4%. In 13 of those years it fluctuated in the extremely narrow range between 46% and 48%. This despite the fact that in the interval hourly wage rates were more than trebeled.

Naturally the wage ratio dropped sharply during the war years, when even passenger business was resulting in good profits. In the immediate post-war period the ratio soared. To a considerable degree this sharp expansion reflected the traditional lag of the railroads in adjusting operations to changing conditions. Also, there was less incentive than usual to economize. There was plenty of cash in the treasuries, property work had been deferred during the war because of material shortages, and there was the earnings cushion afforded by potential tax-credits. By 1947 wages in relation to gross were again down into the traditional long-term range.

Although the industry as a whole has shown this marked wage-revenue stability the experience of the individual railroads has varied widely. In the prewar year 1941 among the major roads the percentage of gross absorbed by wages applicable to operations ranged all the way from 21.0% for Virginian and 29.3% for Norfolk & Western to above 49% for Chicago & North Western. It can hardly be claimed seriously that with this wide variation in the wage burden these companies should be bracketed together as presenting one investment problem. In that year there were six of the major carriers with wage ratios above 45%. They were:

Chicago & Eastern Illinois
Chicago & North Western
Delaware, Lackawanna & Western
Denver & Rio Grande Western
New York Central
Seaboard Air Line

In the same year there were six other roads with wage ratios below 37%. They were:

Chesapeake & Ohio
Great Northern
New York, Chicago & St. Louis
Norfolk & Western
Virginian
Western Maryland

In 1947, the most recent year for which I have the complete statistics, wage ratios of the major carriers ranged all the way from 31.7% for Virginian to 55.4% for Central of Georgia. There were 12 roads in that year with ratios above 50%. Four of them had been in the top brackets in 1941 also, the exceptions being Rio Grande and Seaboard. The other new additions were Boston & Maine; New Haven; Atlantic Coast Line; Delaware & Hudson; Louisville & Nashville; Northern Pacific, and Pennsylvania. There were three roads with wage ratios below 40%. They were the two coal roads, Virginian and Norfolk & Western, and the phenomenal Kansas City Southern.

Taking one single year or two widely scattered years can obviously not be accepted as a criterion of the individual road's wage status. There may be special considerations. Maintenance may be unduly high temporarily or it may be skimped. There may be extraordinary charges to gross revenues representing adjustments applicable to prior years. To get a true picture it is necessary to examine the company's record over a long period of years. I have merely used the examples of these two specific years to point up and stress the fallacy of considering the industry as a whole as a single investment or speculative problem.

There are a number of considerations contributing to the wide variations in wage bills of the individual roads. They are also considerations that may influence costs other than wages. Passengers and l.c.l. freight are traditionally expensive to handle. Moreover they are less susceptible than other types of business to mechanization to offset rising wages. Low density branch lines contribute to a high operating ratio. The type of traffic may be important in point of handling costs and vulnerability of rates because of competitive forces. Terminal costs are highly important to some carriers but of little moment to others. No two roads are influenced to the same extent by these diverse factors.

A factor in the change in the relative status of individual roads over a period of years has been the unevenness of wage increases percentagewise. In all recent instances wage increases have been on the basis of so many cents per hour. This means a considerably larger percentage for those workers originally getting 60 cents an hour than those with a base pay of $1.10 an hour, to pick two figures out of the air. This influence has brought about a much sharper increase in terminal costs than in road-haul costs and has been particularly costly to those roads that combine a short average haul with a terminal operation. There is just as much terminal cost involved in a car load of freight moving 50 miles as if that car moved 200 miles and produced four times as much revenue.

Reaction to Revenue Trends

Aside from differences in wages and other costs, individual roads react differently to the various forces determining traffic and revenue trends. They are, for instance, vulnerable in widely varying degrees to various competitive influences. Passenger business and l.c.l. freight have been among the most vulnerable to diversion. Where these were unimportant items initially the impact was of no concern. Short haul traffic has also been subject to particular diversion to the highways. This was naturally of less importance to roads with a predominance of through traffic than to largely local carriers. Pipe line inroads were serious to only a limited number of roads and waterway

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Rails as Investments

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competition largely affected only those roads paralleling the water routes.

In addition to the competitive factors there are other considerations that have led to wide divergences in the traffic and revenue trends of the individual railroad. There have been the territorial shifts of industry and populations. They are still gonig on. We are all familiar with the past change in the concentration of textiles and shoes in New England with the establishment of many plants in the southeast and middlewest. The establishment of a steel industry in the southeast is another case in point. More recently, and importantly stimulated by the war, has been the sharp expansion in industrial plant in the southwest and centralwest. These shifts naturally work to the detriment of some roads while, at the same time, benefiting other carriers through the opening up of new traffic sources. To try and consider railroads as a whole is to ignore this very important factor of diverse traffic trends.

Transportation Costs

Time is running short but I would like to comment quickly on two other aspects of the railroad picture which I consider of the utmost importance. One of these is the transportation ratio. Transportation costs account for 50%, or more, of total operating expenses. They are not, like maintenance, subject to year-by-year management whim — they represent the actual cost of handling and moving the traffic. Moreover, over any extended period they will reflect any skimping that may happen in maintenance.

Last year the transportation ratio of all Class I carriers as a group was about 39.5%. The ratio of the individual roads ranged all the way from 25.7% for Virginian and 27.6% for Kansas City Southern (the only major carriers running below 30% both last year and in 1947) to 45.2% for Pennsylvania and 46.9% for Central of Georgia. With such a wide variation in the cost of handling and moving the traffic it must again become obvious that bearishness toward one individual road does not necessarily mean bearishness toward every other road.

The percentage of gross carried through to net operating income before Federal income taxes is the true margin of profit. It reflects all operating costs, property taxes, equipment and joint facility rents, etc. For the major Class I carriers last year the pre-tax margin of profit ranged from only 5.0% for New York Central to 37.4% for Kansas City Southern. It takes little analytical ability to realize that the road with the larger margin of profit has the greatest cushion against a further increase in costs or against a decline in traffic. Yet this highly important consideration is completely overlooked by those who think and speak only of "The Rails."

In conclusion, I would like to say that I am perfectly aware of the fact that the railroad industry faces many serious problems. Within the industry, however, there are thoroughly sound companies. Stocks of even these sound companies have suffered from the recent wave of indiscriminate pessimism. On the basis of short, intermediate and long term potentialities, based on earning power, fundamental traffic considerations, basic cost factors, and capital structures there are, in my opinion, quite a few highly attractive stocks in the rail group. Among these I would include in particular, Santa Fe, Rock Island, Rio Grande, Illinois Central, Great Northern and Kansas City Southern, although this by no means covers the entire list of what might be called fundamentally sound rail carriers.

The State of Trade and Industry

(Continued from page 5)

is welcome, but if it portends a drop in steel output then the outlook is not so good. Scrap price conditions are probably discounting the return to a normal steel market.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 101.4% of capacity for the week beginning March 7, 1949, as against 100.5% in the preceding week. The Institute reports the schedule of operations up 0.9 point or 0.9% from the previous week.

This week's operating rate is equivalent to 1,869,300 tons of steel ingots and castings compared to 1,852,700 tons a week ago, 1,845,400 tons or 100.1% a month ago, and 1,741,200 tons, or 96.6% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS CONTINUE IN LATEST WEEK UNDER LEVEL OF COMPARABLE PERIODS IN 1948 AND 1947

Loadings of revenue freight for the week ended Feb. 26, 1949, which included Washington's Birthday, totaled 683,128 cars, according to the Association of American Railroads. This was a decrease of 9,207 cars, or 1.3% below the preceding week, and a decrease of 102,782 cars, or 13% under the corresponding week in 1948, which also included the holiday. It also represented a decrease of 161,863 cars, or 19% below the similar period in 1947, which did not include the holiday.

ELECTRIC OUTPUT DECLINES FOR FIFTH CONSECUTIVE WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 5, was estimated at 5,551,611,000 kwh., according to the Edison Electric Institute. This represented a decrease of 7,596,000 kwh. below output in the preceding week: 259,016,000 kwh. or 4.9% higher than the figure reported for the week ended March 6, 1948 and 765,059,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT OFF SLIGHTLY IN LATEST WEEK AS CHEVROLET RESUMES NORMAL SCHEDULES

Production of cars and trucks in the United States and Canada for the past week advanced to an estimated 117,764 units compared to 118,815 (revised) units in the week preceding, according to "Ward's Automotive Reports."

The decline was attributed to the resumption of normal schedules by Chevrolet, which had achieved a postwar record of 19,985 passenger cars in six-day operations last week.

Output in the similar period a year ago was 108,843 units and in the like week of 1941, 125,915 units.

Last week's output consisted of 87,677 cars and 24,827 trucks built in the United States and 3,184 cars and 2,076 trucks in Canada.

Production of 1,002,659 units in the U. S. and Canada thus far in 1949 is some 70,000 ahead of that for the corresponding 1948 period, the agency reported.

BUSINESS FAILURES SHOW MODERATE INCREASE IN LATEST WEEK

Commercial and industrial failures rose to 185 in the week ending March 3 from 180 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties outnumbered by a wide margin the 113 and 74 which occurred in the comparable weeks of 1948 and 1947, but held considerably under the prewar level of 254 in the same week of 1939.

Failures involving liabilities of $5,000 or more increased sharply to 162 from 149 last week, exceeding the 93 of this size reported a year ago. Small failures with losses under $5,000 declined to 23 from 31 in the previous week, but remained slightly above the 20 occurring last year.

Aside from declines in retail and wholesale casualties, all other industry and trade group failures increased slightly. In both construction and commercial service, casualties were twice as heavy as a year ago, reaching the highest level since 1942 in the latter group.

The Pacific States reported the highest total in that region in the past eight years. The only marked declines occurred in the East North Central and the West North Central regions.

FOOD PRICE INDEX MOVES UPWARD FOR THIRD CONSECUTIVE WEEK

Rising for the third successive week, the Dun & Bradstreet wholesale food price index advanced to $5.82 as of March 1. This was a gain of 0.7% above last week's $5.78, and marked a cumulative increase of 2.8% over the 28-month low of $5.66 recorded on Feb. 8. The current figures shows a drop of 13.1% from the $6.70 of a year ago at this time.

COMMODITY PRICE INDEX SHOWS MILD IMPROVEMENT IN LATEST WEEK

The recovery movement in agricultural prices resulted in a moderate upturn in the Dun & Bradstreet daily wholesale commodity price index the past week. The index closed at 259.41 on March 1, up from 257.41 a week earlier, and compared with 282.35 on the corresponding date a year ago. The latest figure represents a rise of 3.5% as compared with the year's low of 250.73 recorded on Feb. 9.

Leading grain markets continued to be somewhat unsettled but the trend of prices was generally higher.

Trading in futures on the Chicago Board of Trade was less active than in the previous week but aggressive buying of the May delivery of wheat and corn resulted in sharp advances for both grains. Mill demand for wheat was quite active and elevator interests also bought freely. Substantial purchases of wheat by the CCC and expectations of further purchases by the government were strengthening influences in the upturn. Corn was aided by extremely small country offerings as producers were still reluctant to ship at current prices. Current corn prices are still well below the loan level and applications for loans continued at a heavy rate.

Flour prices were slightly firmer, in sympathy with the rise in wheat, but trading in the domestic market continued at a slow pace.

Foreign demand for flour was also slow. Cattle prices remained steady under moderate receipts. Hog marketings were in moderate volume with prices stronger at the close aided by active demand and advancing pork prices. Lambs sold at the best level for several years.

Cotton prices continued to move in a narrow range with final quotations down slightly from those of a week ago. Domestic demand was somewhat better as mills continued to cover for nearby requirements. Foreign demand was more active with sales for export in moderate volume including considerable low grade cotton. Sales reported in the 10 top markets increased sharply to 147,900 bales for the latest week, or almost double the volume of the like week a year ago. Early strength in the market was influenced by reports that the ban on exports to China had been lifted, and indications of further exports to Japan.

The mid-February parity price of cotton, as reported by the Department of Agriculture, showed a drop of 37 points to 30.38 cents per pound, from the mid-January level of 30.75 cents.

Entries of the staple into the government loan stock during the week ended Feb. 17 totaled 69,781 bales, slightly up from a week ago. Total entries for the season to date aggregated 4,633,283 bales. Cotton textile markets showed improvement and were featured by demand for various types of carded cotton gray goods for nearby delivery.

Trading in the Boston raw wools market continued quiet. Buyers showed good interest in fine wools, but there were very few offerings. A moderate volume of government-owned fleece wools were reported sold at equivalent CCC selling prices.

RETAIL AND WHOLESALE TRADE REFLECT MODEST DECLINES FOR WEEK AND YEAR AGO

There were no marked changes in retail volume during the past week. It was slightly below that of the corresponding week a year ago when the early arrival of Easter stimulated the response to spring sales, according to Dun & Bradstreet, Inc., in its latest review of trade. Current interest in pre-Easter promotions was limited and retail volume of apparel remained near that of the previous week. Women's spring suits were more popular than coats in many localities; suits of covert, sharkskin, worsted and rayon gabardine were sold in a sizable volume. The demand for dresses of rayon crepe and cotton prints remained substantial. Continued sales of men's winter coats and early promotions of spring suits and topcoats attracted moderate attention in some localities.

Retail volume for men's apparel generally was below that of a year ago.

Food volume did not vary appreciably from that of the preceding week. The number of requests for smoked meats and large roasts declined somewhat. There was, however, a slight rise in the demand for meat and butter substitutes. Fresh, canned and dried fish was more eagerly sought than in the previous week, due to the Lenten Season. Purchases of candy and bakery goods were moderately curtailed during the week.

As the consumer response to clearance sales of furniture and housewares declined in many areas, shoppers' interest shifted to household utility items.

There was an increased demand for curtains and draperies and sales volume of bedding also rose somewhat. The buying of floor coverings decreased slightly but scattered rises in the demand for hardware were apparent.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 5% below that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England unchanged to down 4, East up 1 to down 3, South and Southwest down 1 to down 5, Midwest down 3 to down 7, Northwest up 2 to down 2 and Pacific Coast down 2 to down 6.

Total wholesale dollar volume was sustained at a high level in the week and was fractionally below that of the corresponding week a year ago. The number of buyers attending many wholesale markets increased sharply from the previous holiday-shortened week and substantially surpassed the number in the comparable week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 26, 1949, decreased by 7% from the like period of last year. This compared with a revised figure of 9% in the preceding week. For the four weeks ended Feb. 26, 1949, sales decreased by 5% and for the year to date decreased by 1%.

Retail trade in New York the past week again registered declines under the corresponding period a year ago with department store sales estimated at 9% under 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Feb. 26, 1949, declined by 4% from the same period last year. In the preceding week a decrease of 7% was registered under the similar week of 1948. For the four weeks ended Feb. 26, 1949, a decrease of 6% was recorded below that of last year and for the year to date volume decreased by 3%.

Carl E. Dyas With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Carl E. Dyas has become associated with Merrill Lynch, Pierce, Fenner & Beane, 216 Superior Avenue, N. E. Mr. Dyas was formerly co-manager of the Cleveland office of Francis I. du Pont & Co. and prior thereto served in the same capacity with Hirsch & Co.

With Heath & Co.

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—Herbert P. Davenport has been added to the staff of Heath & Co., Tower Bldg.

Reed, Lear & Co. in New Location in N. Y. C.

Reed, Lear & Co., members of the Pittsburgh Stock Exchange, announce that on and after March 12, their New York City office will be located at 141 Broadway. Their new phone will be BArclay 7-5969.

With Chas. E. Bailey

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Reginald E. Archer has joined the staff of Charles E. Bailey & Co., Penobscot Bldg., members of the Detroit Stock Exchange.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date. or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Mar. 13	101.4	100.5	100.1	96.6
Equivalent to—					
Steel ingots and castings (net tons)	Mar. 13	1,869,300	1,852,700	1,845,400	1,741,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Feb. 26	5,344,250	5,361,100	5,438,850	5,387,125
Crude runs to stills—daily average (bbls.)	Feb. 26	‡5,412,000	5,322,000	5,490,000	5,463,000
Gasoline output (bbls.)	Feb. 26	17,621,000	16,984,000	17,531,000	15,796,000
Kerosene output (bbls.)	Feb. 26	1,997,000	2,189,000	2,588,000	2,780,000
Gas oil and distillate fuel oil output (bbls.)	Feb. 26	7,430,000	7,000,000	7,547,000	7,963,000
Residual fuel oil output (bbls.)	Feb. 26	8,225,000	8,117,000	8,178,000	8,824,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 26	124,382,000	122,533,000	114,970,000	111,040,000
Kerosene (bbls.) at	Feb. 26	19,389,000	20,066,000	21,873,000	9,594,000
Gas oil and distillate fuel oil (bbls.) at	Feb. 26	57,746,000	58,574,000	67,432,000	33,836,000
Residual fuel oil (bbls.) at	Feb. 26	80,246,000	80,591,000	84,462,000	49,206,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 26	688,128	697,335	679,255	790,910
Revenue freight received from connections (number of cars)	Feb. 26	629,824	625,844	599,666	738,288
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 3	$118,564,000	$75,622,000	$209,705,000	$183,872,000
Private construction	Mar. 3	67,732,000	27,485,000	143,290,000	71,728,000
Public construction	Mar. 3	50,832,000	48,137,000	66,413,000	112,144,000
State and municipal	Mar. 3	33,150,000	46,585,000	61,043,000	55,527,000
Federal	Mar. 3	17,682,000	1,552,000	5,370,000	56,617,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 26	10,810,000	*10,855,000	10,480,000	*13,503,000
Pennsylvania anthracite (tons)	Feb. 26	812,000	698,000	653,000	1,238,000
Beehive coke (tons)	Feb. 26	158,400	157,200	150,600	132,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 26	232	*227	218	248
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 5	5,551,611	5,559,207	5,778,476	5,292,595
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 3	185	180	145	113
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 1	3.75434c	3.75434c	3.75628c	3.27585c
Pig iron (per gross ton)	Mar. 1	$46.74	$46.74	$46.74	$40.37
Scrap steel (per gross ton)	Mar. 1	$37.25	$37.25	$40.42	$40.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 2	23.200c	23.200c	23.200c	21.200c
Export refinery at	Mar. 2	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Mar. 2	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Mar. 2	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Mar. 2	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Mar. 2	17.500c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 8	101.63	101.61	101.09	100.73
Average corporate	Mar. 8	112.93	112.93	112.56	111.25
Aaa	Mar. 8	118.80	118.80	118.40	116.41
Aa	Mar. 8	117.00	117.00	116.61	115.04
A	Mar. 8	112.00	112.00	111.25	110.52
Baa	Mar. 8	104.66	104.66	104.48	103.64
Railroad Group	Mar. 8	108.34	108.34	107.80	105.69
Public Utilities Group	Mar. 8	113.70	113.50	113.12	113.12
Industrials Group	Mar. 8	117.20	117.00	116.80	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 8	2.38	2.38	2.42	2.45
Average corporate	Mar. 8	3.01	3.01	3.03	3.10
Aaa	Mar. 8	2.71	2.71	2.73	2.85
Aa	Mar. 8	2.80	2.80	2.82	2.90
A	Mar. 8	3.05	3.06	3.10	3.14
Baa	Mar. 8	3.47	3.47	3.48	3.53
Railroad Group	Mar. 8	3.26	3.26	3.29	3.41
Public Utilities Group	Mar. 8	2.97	2.98	3.00	3.00
Industrials Group	Mar. 8	2.79	2.80	2.81	2.89
MOODY'S COMMODITY INDEX	Mar. 8	375.8	376.1	370.1	404.1
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 5	218.8	220.2	218.2	228.7
Fats and oils	Mar. 5	156.7	162.3	166.4	244.0
Farm products	Mar. 5	236.3	234.8	232.0	258.0
Cotton	Mar. 5	306.8	308.8	311.5	324.3
Grains	Mar. 5	205.7	202.5	201.2	277.4
Livestock	Mar. 5	235.9	234.1	229.2	247.9
Fuels	Mar. 5	237.0	237.0	238.3	228.0
Miscellaneous commodities	Mar. 5	167.1	167.2	169.5	174.1
Textiles	Mar. 5	190.5	191.6	192.4	212.7
Metals	Mar. 5	190.1	190.1	190.4	163.5
Building materials	Mar. 5	217.4	217.4	217.9	232.8
Chemicals and drugs	Mar. 5	142.5	142.7	145.5	157.0
Fertilizer materials	Mar. 5	142.9	142.9	143.4	137.7
Fertilizers	Mar. 5	150.5	150.5	151.3	143.0
Farm machinery	Mar. 5	155.6	155.6	155.6	138.0
All groups combined	Mar. 5	211.1	211.3	210.8	218.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 26	134,542	152,291	167,930	169,597
Production (tons)	Feb. 26	164,620	175,628	181,483	180,943
Percentage of activity	Feb. 26	80	86	88	101
Unfilled orders (tons) at	Feb. 26	267,685	295,474	304,146	423,510
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Mar. 4	139.0	140.1	141.1	147.2
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 1	158.8	158.5	158.8	161.4
Farm products	Mar. 1	170.5	169.6	168.9	189.3
Foods	Mar. 1	161.3	160.8	158.6	173.0
All commodities other than farm and foods	Mar. 1	152.3	152.2	153.5	147.4
Textile products	Mar. 1	142.3	142.2	143.5	150.5
Fuel and lighting materials	Mar. 1	135.9	135.9	138.0	130.9
Metals and metal products	Mar. 1	177.9	178.1	178.3	155.7
Building materials	Mar. 1	201.5	201.3	200.8	192.9
All other	Mar. 1	131.5	131.2	132.9	134.0
Special indexes—					
Grains	Mar. 1	164.6	160.3	161.6	222.7
Livestock	Mar. 1	207.0	203.7	106.8	225.3
Meats	Mar. 1	221.4	219.1	215.5	228.5
Hides and skins	Mar. 1	181.4	181.1	194.3	186.2

*Revised figure. ‡Includes 337,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For month of January:			
Total gas (M therms)	3,490,051	3,176,126	3,204,636
Natural gas sales (M therms)	3,119,786	2,844,921	2,769,608
Manufactured gas sales (M therms)	238,085	214,457	266,000
Mixed gas sales (M therms)	132,180	116,748	169,028
AMERICAN PETROLEUM INSTITUTE—Month of December:			
Total domestic production (bbls. of 42-gallons each)	189,805,000	183,158,000	177,600,000
Domestic crude oil output (bbls.)	176,329,000	170,242,000	165,443,000
Natural gasoline output (bbls.)	13,448,000	12,888,000	12,307,000
Benzol output (bbls.)	28,000	28,000	50,000
Crude oil imports (bbls.)	14,547,000	12,923,000	8,812,000
Refined products imports (bbls.)	5,450,000	4,555,000	6,126,000
Indicated consumption—domestic and export (bbls.)	205,396,000	185,260,000	206,764,000
Increase—all stock (bbls.)	4,406,000	15,376,000	‡‡14,026,000
AMERICAN ZINC INSTITUTE, INC. — Month of February:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	69,193	75,815	67,917
Shipments (tons of 2,000 lbs.)	68,522	*76,234	74,697
Stocks at end of period (tons)	21,100	*20,429	48,643
Unfilled orders at end of period (tons)	87,898	75,858	72,224
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of February:			
Manufacturing number	170	129	151
Wholesale number	90	76	35
Retail number	318	267	165
Construction number	63	53	22
Commercial service number	44	41	44
Total number	685	566	417
Manufacturing liabilities	$15,009,000	$8,625,000	$17,897,000
Wholesale liabilities	3,458,000	2,627,000	1,346,000
Retail liabilities	5,728,000	4,841,000	3,410,000
Construction liabilities	2,476,000	1,892,000	1,987,000
Commercial service liabilities	896,000	1,174,000	979,000
Total liabilities	$27,567,000	$19,159,000	$25,619,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of February:			
Total U. S. construction	$563,000,000	$565,826,000	$474,643,000
Private construction	374,000,000	229,814,000	227,010,000
Public construction	189,000,000	336,012,000	247,633,000
State and Municipal	169,000,000	206,115,000	113,385,000
Federal	20,000,000	129,897,000	134,248,000
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of December (000's omitted)	21,465,106	20,677,615	19,617,041
Revenue from ultimate customers—month of December	$390,128,300	$375,038,200	$351,460,200
Number of ultimate customers at Dec. 31	40,721,988	40,557,945	38,431,950
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of December:			
All manufacturing	13,055,000	*13,233,000	13,263,000
Durable goods	6,735,000	*6,807,000	6,816,000
Nondurable goods	6,320,000	*6,426,000	6,447,000
Employment indexes—			
All manufacturing	159.4	*161.5	161.9
Durable goods	186.5	*188.5	188.8
Nondurable goods	138.0	140.3	140.7
Payroll indexes—			
All manufacturing	377.8	*379.0	365.7
Durable goods	430.9	*429.9	411.0
Nondurable goods	326.0	*329.3	321.4
Estimated number of employees in manufacturing industries—			
All manufacturing	16,278,000	*16,455,000	16,354,000
Durable goods	8,228,000	*8,299,000	8,274,000
Nondurable goods	8,050,000	*8,156,000	8,080,000
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of January:			
Shipments (in pounds)	581,000	728,000	314,000
METAL PRICES (E. & M. J. QUOTATIONS)— Average for month of February:			
Copper (per pound)—			
Electrolytic, domestic refinery	23.200c	23.200c	21.200c
Electrolytic, export refinery	23.432c	23.430c	21.507c
Lead (per pound)—			
New York	21.500c	21.500c	15.000c
St. Louis	21.300c	21.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	70.803c	70.000c	74.625c
Silver, London (pence per ounce)	43.000d	42.500d	45.000d
Sterling Exchange (Check)	$4.02750	$4.02750	$4.02514
Zinc (per pound)—East St. Louis	17.500c	17.500c	12.000c
Tin (per pound)—			
New York Straits	103.000c	103.000c	94.000c
New York, Chinese or 99%	102.000c	102.000c	93.500c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$88.091	$89.600	$76.409
¶Antimony (per pound) (E. & M. J.)	41.730c	41.713c	36.120c
Antimony (per pound), bulk, Laredo	38.500c	38.500c	33.000c
Antimony (per pound), in cases, Laredo	39.000c	39.000c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$85.455	$91.600	$68.864
†Cadmium (per pound)	$2.00000	$2.00000	$1.75000
‡Cadmium (per pound)	$2.05000	$2.05000	$1.77500
§Cadmium (per pound)	$2.10000	$2.10000	$1.80000
Aluminum, 99% plus, ingot (per pound)	17.000c	17.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
**Nickel	40.000c	40.000c	Not avail.
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Feb.:			
Industrials (125)	7.12	6.84	5.97
Railroads (25)	8.39	7.77	6.06
Utilities (25)	6.09	6.04	6.01
Banks (15)	4.70	4.67	4.77
Insurance (10)	3.33	3.33	3.62
Average yield (200)	6.85	6.62	5.88
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of January:			
Total number of vehicles	431,284	486,981	405,663
Number of passenger cars	326,019	378,455	305,681
Number of motor trucks	104,607	107,702	99,200
Number of motor coaches	658	824	1,382
NEW BUSINESS INCORPORATION—DUN & BRADSTREET, INC.—Month of January	7,906	7,421	11,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of February 28	$252,747,393	$252,656,167	$254,683,352
General fund balance	5,290,704	4,659,251	4,318,356
Net debt	$247,456,689	$247,996,916	$250,364,996
Computed annual interest rate	2.225%	2.222%	2.170%

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on plater's quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colbourne, N. S. U. S. duty included. ‡‡Decrease—all stocks.

Future Financing of Electric Utilities

(Continued from page 7)

dividend rate plus a reduction in the cost of underwriting and distribution. It is my belief that you should recognize preferred stock as a permanent part of your capitalization and that you should pay the rate and stand the expense necessary to obtain that capital from the individual and small institutional investor. This involves recognizing the increased task of the security dealers in distributing the stocks in blocks of from $1,000 to $10,000 rather than from $100,000 to $1,000,000, and paying the increased expense in the form of underwriting and distributing costs which this entails. In this connection it must be observed that the large life insurance companies have a very real problem in that they are required to carry their preferred stock investments at market quotations at the year end. The sinking fund or purchase fund suggestions represent a sincere effort on their part to answer their problem. In certain states committees of life insurance representatives are endeavoring to work out a satisfactory solution with the appropriate insurance commissioners and superintendents. The efforts of these committees, if successful, could result in the large life insurance companies' again being an important factor in the market for your preferred stock issues.

More Utility Common Stock Available

During the past 3 years the common stocks of upwards of 40 operating utilities have become available to investors, and as of the present time the common stocks of upwards of 120 operating electric utility companies are outstanding with the public. Ten years ago there were only a handful of major operating electric utility common stocks outstanding with the public—perhaps 15 or 18 companies were not entirely or substantially owned in one or another of the holding company systems. At a point in the first half of 1946 the dividend yield to the investor on many of your common stocks was well below 5%, some of them approaching a low of 4%. As of the present time the lowest yield on a few electric utility common stocks is about 4.80%, the highest yield is 10%, and the average is about 7%. Recently my attention was called to some figures which deserve consideration. They show that at the high point of the stock market in 1948 the utility commons were selling 17½% below the high point of 1946, the industrials were about 9% below the 1946 high, and the rails only about 5% below the 1946 high. In 1948 the rails were selling 51% higher than the 1947 lows which followed the 1946 peaks, the industrials were 18% above the 1947 lows, and the utilities were only about 11½% above the 1947 lows. In other words, the utility commons did not come back with the others although they had declined with them.

Through the refunding operations most of your debt and much of your preferred stock passed from the safe deposit boxes of individual investors to the vaults of the large institutions. This transfer left individuals in funds and over the past few years they have purchased many millions of dollars of operating companies' common stocks in connection with the liquidation of the holding companies. On the basis of experience in the recent past the investor in your preferred stock and your common stock is not particularly happy. Of course he is not particularly unhappy either, as he still feels his income is safe. But generally speaking the security he bought is selling lower than he paid for it rather than higher, and he is definitely from Missouri—he is talking about a "fair deal"—when it comes to making further investments in electric utility stocks. Let's face the fact: Your equity stocks are going to have to be sold. Investors are not going to telephone in and ask to buy them.

The competition is keen for that segment of the country's savings which annually go into equity stocks which are issued for new capital. There is a glamour about industrial common stocks which has a surface appeal to investors, and in recent years there has been a profit incident to their sale which has a very practical appeal to the security dealers of the country. You are in a business which is an absolute necessity for day-to-day existence It is in the public interest that it be financed. If it is not financed with private capital, raised through the machinery established for that purpose, in competition with other requirements for private capital, then it will ultimately be financed through the credit of the Government. This is a possibility which no utility executive and no security dealer likes to contemplate, and only an infinitesimal percentage of those identified with the regulatory bodies would favor. In 1948 about $150,000,000 was raised from the sale of preferred stock by the electric utility industry and only about $100,000,000 came from the sale of common stock. In both cases the figures are for new money and exclude sales for holding company account. I have no way of proving it, and therefore I state it as my own unsupported opinion that the amount of money raised from the sale of preferred stock was about right and the amount raised from the sale of common stock was about half of what should have been raised to support sound capital structures. It is estimated that about $300,000,000 of new money will have to be raised by the industry in 1949 from the proceeds of common stock, plus about $125,000,000 from the sale of preferred stock. These figures, like all estimates, are educated guesses. My own feeling is that they are definitely on the low side and that larger sums should be raised. So now we have the question. In the light of recent history and with a knowledge of the order of magnitude of the job, what steps can be taken to sell the securities and raise the money?

What Rate Increases Would Mean

A tidal wave of rate increases throughout the country would bring an almost overnight change in the attitude of professional analysts and investors toward your common stocks. However, tidal waves are difficult to arrange and we will probably have to settle for an ascending wave and a gradual change. In fairness it must be recognized that by and large regulatory bodies are taking a favorable attitude toward rate increases. In 1948 about 90 electric utilities applied for rate increases and practically all applications were granted. All told, there are approximately 320 Class A and B electric operating utilities in the country. During this period approximately 150 government and municipal systems increased their rates.

Most utilities have done the relatively modest amount of economizing which is possible under present conditions. Taxes are beyond the control of managements. Payrolls and fuel costs are up. Federal Power Commission figures show operating ratios for electric utilities at 42.8% in 1942, up to 45.8% in 1945, on up to 48.2% in 1946, and then to 52.8% in 1947. The industrials almost universally pass higher taxes and wages along to the consumer in the form of higher prices. The rails are enjoying the two rate increases granted by the Interstate Commerce Commission in 1946 and in 1948.

It is of course impossible to make general statements relating to rate bases, rates of return and rate structures. These are matters which must be considered in the light of the circumstances surrounding individual cases. I do submit however that, generally speaking, rate increases are very much in order in the electric utility industry. The utility commissions have a dual responsibility. The rates they approve must be fair to the consumer but they must also be designed to attract needed new capital. This latter responsibility is a very real one today. The reductions in the interest and dividend requirements which your industry accomplished from 1935 to 1945, plus operating economies and improvements in operating efficiency, have enabled you to reduce rates in the past and at the same time to absorb increased taxes and increased costs for fuel and wages. Now you are faced with raising new capital at higher costs than prevailed in the refunding era and also with continued increases in operating costs.

While the facts vary in individual cases I am convinced that generally speaking rate increases are necessary to assure the sale of common stock and thereby to provide the keystone piece for your financing programs. Entirely aside from the tangible results, the cooperation of the regulatory bodies will be a complete answer to the feeling in some quarters that the utilities are a regulated industry and the regulation is always in the interests of the ratepayer rather than the common stock investor.

An equally spectacular overnight change would be accomplished with respect to investor interest in your common stocks if the Congress were to modify the existing unsound situation with respect to double taxation. This is probably too much to hope for, but it is something that should be continuously in the forefront of your minds when you are discussing the problems of financing your business with your utility commissioners, your congressmen and your senators. Even if no action is obtained in Congress on this important question of economics, which seems to be bogged down in politics, in time to assist in financing your current expansion progress, continuous education of members of Congress may conceivably bring the desired sound result at a future time.

Competitive Bidding

The sealed deadline bidding procedure severely handicaps the security dealers of the country in obtaining for your program a fair share of the funds which are available for equity investment. State and Federal regulatory bodies, despite the representations of reputable security dealers, have persisted in encouraging and at times ordering the sale of equity securities through the bidding procedure. The raising of new capital through the sale of preferred or common stock must be preceded by a well conceived program to educate security dealers regarding the business, the management, and the past history of the issuer as well as the territory in which it operates. The bidding procedure drastically handicaps this necessary program of education and it encourages the unsound philosophy of endeavoring to sell your stock to the investor at the highest conceivable price. Every action possible should be taken to bring about a moratorium of the sealed deadline bidding procedure with respect to the underwriting and distribution of your preferred and common stocks at least for a period sufficient to enable the intelligent and orderly distribution of the equity securities which you must sell to raise the capital necessary for your expansion program. And I wish to make it entirely clear that I urge this primarily in your own interests. While I have more or less grown up in the field of utility financing, I find that I am spending a smaller and smaller proportion of my time on matters pertaining to utilities and a correspondingly larger amount of time in connection with the financing of industrial companies. This is true of many of my associates in The First Boston Corporation, and I am sure it is similarly true of men not only in other large underwriting firms, but the most disquieting fact is that it is also true in smaller security distributing firms throughout the country. This trend among the small security dealers must be arrested if your expansion is to be financed with the aid of private capital. It can be stopped instantly and promptly reversed by the adoption of the negotiation procedure in the sale of equities, which will result in most instances in fair offering prices and adequate compensation for underwriting and distribution.

Tried-and-True Foundation For Financing

In the final analysis the financing of your expansion program must rest on the old tried-and-true foundationpiece, jawbone and leg work. Organizing to sell upwards of $425,000,000 of equity securities, a large portion of which is common stock, in 1949 with more to follow in 1950 and 1951 is a sizable undertaking. The job is not made easier by the background of the past three years which I have outlined to you. The objective is well worthwhile because the alternatives—either too much debt or assistance from the government or both—must be avoided. Being practical, we all know that it is pointless to rest on the hope that a spectacular event will remove all the hurdles, and we are inevitably led to the conclusion that plain hard work is the real answer. All utility executives, senior and junior, should make opportunities to talk the strong points of the electric utility business before all types of forums—the stability, the earnings record, and the enormous future prospects for the development of the business which are being discussed by other speakers at this series of meetings. If you have not already done so you should all get to know your local security dealers and sell them on the industry as a whole and on your company in particular. I would like to see a general effort made to have members of the regulatory bodies and their staffs encouraged to make talks on their philosophies of regulation and their viewpoints regarding the future of the electric utility business and the business of the particular utilities which they regulate. One of the best ways to combat the spread of public ownership, which if carried to the ultimate would have the by-porduct result of curtailing and possibly eliminating the activities of the regulatory bodies, is to have a financially strong privately owned electric utility industry. Viewed in this light the education of the investing public on the present soundness and the bright future prospects of electric utilities for the purpose of encouraging equity investments is a crusade which management and regulatory personnel can carry on shoulder to shoulder.

Role of Security Dealers

The biggest part of the equity job must be done by about 800 security dealers throughout the country. They must do the legwork to reach thousands of private investors. They have the training, they know where the investors are, and during 1948 they gave tangible evidence on several occasions of their ability to do their job when they understand the facts relating to the commodity they have for sale and the profit incentive is sufficient. While they will need help from you as management in certain instances, you will find that security dealers when properly guided will aggressively and successfully advocate your case with the investment trusts where the yardstick sights on the percentage of total assets which are invested in the electric utility industry are too low; with the myriad of investment counselors and advisers throughout the country who in my opinion must also raise their sights on the amount of electric utility common stocks a well balanced portfolio should include; with the life insurance people in the 33 states of the Union where it is today legal for those institutions to invest in common stocks; as well as with the life insurance companies and the insurance superintendents in certain other states which are now considering enabling legislation to permit such investments.

Six of the 52 weeks of 1949 are already history and only about six and a quarter million dollars of electric utility common stock for new capital has been offered. There is no time to waste, because there will probably be another requirement of $300 million of new common stock money for your program in 1950 and if the equity job is not done in 1949 some of the companies represented at this meeting may begin to encounter difficulty with the debt segment of the 1950 program.

Aggressively advocate your rate increases. Aggressively move to obtain a moratorium of the sealed competitive bidding procedure with respect to the sale of equity securities. Aggressively sell your industry and your particular company at every opportunity. Avoid overpricing the new issues of preferred and common stocks and underpaying the security dealers in connection with their distribution. After all, considering the prices you pay for materials, supplies and labor, 4¼% to 5% for preferred stock money and 6½% to 7½% for common stock money—and most of you will be within those brackets—is not unreasonable.

Performance on these few fundamental points will, I am confident, assure your 1949 program and leave you in a strong and healthy condition to meet whatever the problems may be in connection with your 1950 and 1951 financing.

Bradley With Shields & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — C. Richard Bradley has become connected with Shields & Co., 210 West Seventh Street. Mr. Bradley was formerly with Buckley Brothers and J. A. Hogle & Co.

Wm. R. Staats Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—John B. Hogan has joined the staff of William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with the Pacific Company of California.

With Louis A. Love Co.

(Special to THE FINANCIAL CHRONICLE)

MENLO PARK, CAL.—Benjamin B. Cassiday has been added to the staff of Louis A. Love Co., 700 Hermosa Way.

Coburn & Middlebrook Add

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Joseph J. Wosnick is with Coburn & Middlebrook, Inc., 37 Lewis Street.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● Allen Industries, Inc., Detroit, Mich.
Feb. 28 (letter of notification) not in excess of 6,000 shares of common ($1 par). **Price**—$8 per share. **Underwriter**—Baker, Simonds & Co., Detroit. Proceeds to selling stockholder.

Allied Western Oil Corp., New York
Jan. 19 (letter of notification) 1,200,000 shares of common stock (par 1c). **Underwriter**—Atlantic Securities Co., New York. **Price**—25c per share. Acquisition of oil leases, properties, drilling, etc.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Financing plan may be revised.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

● Atlas Gold Mines, Inc., Phoenix, Ariz.
March 2 (letter of notification) 99,000 shares of common. **Price**—$1 per share. No underwriter. To purchase machinery and equipment and for operating expenses.

● Benson (N. P.) Optical Co., Minneapolis, Minn.
Feb. 28 (letter of notification) 750 shares of class B preferred. **Price**—$100 per share. No underwriter.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

● Brockway Tractor Co., Chagrin Falls, Ohio
March 3 (letter of notification) 25,000 shares of common, of which no more than 15,000 shares would be offered at this time. No underwriter. To purchase materials and equipment and finance business expenses.

● Bullock Fund, Ltd., New York
Feb. 28 filed 100,000 shares ($1 par) capital stock. **Underwriter**—Calvin Bullock. Price, market. **Proceeds**—For investment.

Capital City Boating Corp., Washington, D. C.
Jan. 4 (letter of notification) 50,000 shares ($2 par) 6% non-cumulative preferred stock. Price, $3 per share. **Underwriter**—Lawrence R. Shepherd & Co., Washington, D. C. To operate company, purchase an excursion boat and invest in the securities of other transportation or amusement companies.

● Central Hudson Gas & Electric Corp.
March 3 filed 20,000 shares of cumulative preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include Union Securities Corp. **Proceeds**—Payments on outstanding short-term notes.

Central Maine Power Co. (3/14)
Feb. 11 filed $5,000,000 30-year first and general mortgage bonds, series R. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harriman Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Shields & Co.; Otis & Co. **Proceeds**—To reduce notes payable to The First National Bank of Boston. **Bids**—Bids for purchase of bonds will be received at company's office, 443 Congress Street, Portland, Me., up to 11 a.m. (EST), March 14.

● Central Oklahoma Oil Corp., Oklahoma City
March 4 (letter of notification) 299,500 shares (10c par) common. **Price**—$1 per share. **Underwriter**—Henry P. Rosenfeld Co., New York. For expenses and working capital.

● Chace Industries, Inc., West Chester, Pa.
March 7 (letter of notification) 68,000 shares of 6% non-cumulative preferred stock (par $4) and 68,000 shares of common stock (par 10¢). **Underwriter**—De Witt Investment Co., 910 West St., Wilmington, Del. To be offered in units of one share of each. Building of factory, installing machinery, working capital.

Citizens Credit Corp., Washington, D. C.
Jan. 3 (letter of notification) 2,200 shares of Class A common stock, ($12.50 par) and 2,200 shares of Class B common ($25c par). To be sold in units of one share of Class A and one share of Class B at $15 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general funds of company.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

Colorado Fuel & Iron Corp. (3/24)
March 2 filed $11,000,000 first mortgage and collateral trust 15-year sinking fund 4% bonds, due 1964. **Underwriter**—Allen & Co., New York. **Proceeds**—To prepay $7,250,000 of bank loans, to pay $1,600,000 due the War Assets Administration and to finance construction of other corporate purposes.

Columbia Gas System, Inc., New York (3/15)
Feb. 14 filed $20,000,000 25-year debentures. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers, Goldman, Sachs & Co. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler, The First Boston Corp. **Proceeds**—To be used to finance part of the 1949 construction program. **Bids**—Bids for purchase of debentures will be received by company up to 11:30 a.m. (EST) March 15, at 120 East 41st Street, New York.

● Consolidated Photographic Industries, Inc., Tacoma, Wash.
Feb. 24 (letter of notification) 100,000 shares ($1 par) common at $1.50 per share and 75,000 shares ($1 par) common at $2 per share. No underwriter. For retirement of bank loans and for general capital requirements.

Continental Engineering Co. (3/21)
Jan. 28 (letter of notification) 500,000 shares of common stock (par 50c). Price par. **Underwriter**—William C. Hitchman Co., New York. For equipment and expenses.

● Cooperative Trading, Inc., Waukegan, Ill.
Feb. 28 (letter of notification) 5,000 shares of common (par $10). Price, par. No underwriter. To make payments on account of existing corporate indebtedness and to add to working capital.

Dallas Power & Light Co. (3/28)
Feb. 24 filed $10,000,000 first mortgage bonds, due 1979. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Kidder, Peabody & Co., Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp; Equitable Securities Corp.; Harriman Ripley & Co.; Union Securities Corp.; Lehman Brothers; Salomon Bros. & Hutzler. **Proceeds**—For construction and to pay off short-term borrowings obtained from its parent Texas Utilities Co. Expected about March 28.

Detroit & Cleveland Navigation Co., Detroit
Feb. 8 (letter of notification) 15,000 shares of common ($5 par). To be offered to stockholders. No underwriter. To reimburse the issuer for shares purchased by the issuer.

● Detroit (Mich.) Sulphite Pulp & Paper Co.
Feb. 18 (letter of notification) not exceeding 5,000 shares of common stock. **Underwriters**—William C. Roney & Co. and Ferriss, Wagner & Miller, Detroit. Proceeds to selling stockholder, Detroit Trust Co.

Eastern Gas and Fuel Associates (3/22)
Feb. 18 filed $12,000,000 25-year first mortgage and collateral trust bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; White, Weld & Co. and Kidder, Peabody & Co. (jointly). **Proceeds**—For construction and to reimburse the company for past expenditures. Expected about March 22.

Emery Hill Stores Co., Greenville, S. C.
Feb. 8 (letter of notification) 5,000 shares of common stock. Present stockholders, other than the management, will be given until March 15, 1949, to buy at $5 per share, one share for each four shares now held. **Underwriter**—Frank S. Smith & Co., Inc., Columbia, S. C. For working capital.

● Exploration Enterprises, Inc., Ft. Worth, Texas
Feb. 24 (letter of notification) 10,000 shares of common stock (par $1). Price, par. No underwriter. These shares will be exchanged for oil payment bonuses.

Farnsworth Television & Radio Corp.
Jan. 12 filed 270,000 shares ($1 par) common stock. **Underwriter** — The First Guardian Securities Corp., New York. **Proceeds** — To pay past due debts, to reestablish the corporation's credit position and for general corporate purposes. Offering has been indefinitely postponed. International Telephone & Telegraph Corp. directors on Feb. 9 voted to enter the television field and expand in manufacture of other radio consumer goods through acquisition of Farnsworth Television & Radio Corp. An agreement has been reached in principle for an exchange of one share of I. T. & T. stock for each 12 of the 1,680,568 shares of Farnsworth stock outstanding.

● First Springfield Corp., Springfield, Mass.
Feb. 28 (letter of notification) 5,471 shares of common capital stock. **Underwriter**—D. J. St. Germain & Co., Springfield, Ohio. Additional working capital.

● Frontier Refining Co., Denver, Colo.
March 7 filed $600,000 5% first mortgage bonds, series of 1949, $150,000 of 5½% debentures, due March 1, 1954, and 5,000 shares of 7% cumulative preferred stock ($100 par). **Underwriters**—Peters, Writer & Christensen, Inc., and Sidlo, Simons, Roberts & Co., Denver, Colo. **Proceeds**—To be added to general funds to retire current bank loans and for other purposes including the expansion of facilities.

Gauley Mountain Coal Co., New York
Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by Norgreen Associates Inc. and others. **Underwriting** — None. **Proceeds** — Company will use its proceeds for additional working capital.

● Golden Crown Mining Co., Crown King, Ariz.
March 2 (letter of notification) 10,000 shares ($1 par) common stock owned, and being offered, by Western Gold Mines, Inc., at about 75 cents per share. No underwriter. No proceeds to company.

Gulf Power Co., Pensacola, Fla. (3/22)
Feb. 18 filed $2,500,000 30-year first mortgage bonds. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Equitable Securities Corp.; Halsey, Stuart & Co. Inc.; Otis & Co.; Kidder, Peabody & Co.; Union Securities Corp.; **Proceeds**—For construction. Expected about March 22.

Harwill, Inc., St. Charles, Mich.
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

Hastings (Mich.) Manufacturing Co.
Feb. 21 (letter of notification) 552 shares ($2 par) common on behalf of E. Dorris Fletcher. Price, $7.50 per share. **Underwriter**—First of Michigan Corp.

Hawkeye Casualty Co., Des Moines, Iowa
Jan. 20 (letter of notification) 4,000 shares of $10 par $2.50 cumulative preferred stock, to be sold at $50 per share. **Underwriters**—Becker & Cownie, Inc., and Shaw, McDermott & Co., Des Moines, Iowa.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Hollingsworth & Whitney Co. (3/22)
Feb. 23 filed $8,500,000 3¼% sinking fund debentures, due March 1, 1969, and 61,510 shares (no par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis and Harriman Ripley & Co., Inc. **Proceeds**—To expand facilities of company's Mobile, Ala., mills.

Hotelevision, Inc., L. I. City (3/15)
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation. Expected about March 10.

Horwood Lake Gold Mines Corp.
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock to be offered at $10 per share and 20,020 shares to be issued in exchange for $170,200 first mortgage bonds. **Underwriter**—Tom G. Taylor & Co., Missoula, Mont. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Illinois Power Company (3/29)
March 2 filed 200,000 shares ($50 par) cumulative preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; W. E. Hutton & Co. Co., Inc.; The First Boston Corp.; W. E. Hutton & Co.; Merrill Lynch, Pierce, Fenner & Beane. Expected about March 29. **Proceeds**—To pay off about $10,000,000 of short-term bank loans.

(Continued on page 40)

NEW ISSUE CALENDAR

March 10, 1949

New York State Electric & Gas Corp.______Common
Wabash RR., noon (EST)________Equip. Trust Ctfs.

March 14, 1949

Central Maine Power Co., 11 a.m. (EST)____Bonds
Nielsen Television Corp.__________Pfd. & Com.
Spokane Portland & Seattle Ry., noon (EST)__________Equip. Trust Ctfs.

March 15, 1949

Chicago Rock Island & Pacific RR., 11:30 a.m. (CST)________Equip. Trust Ctfs.
Columbia Gas System Inc., 11:30 a.m. (EST)__Debs.
Hotelevision Inc.________________Class A Stock
Merchants Acceptance Corp.______________Preferred
Northern States Power Co. (Minn.)_______Common

March 16, 1949

Deleware Lackawanna & Western RR., noon (EST)__________Equip. Trust Ctfs.

March 17, 1949

St. Louis-San Francisco Ry.________Equip. Trust Ctfs.

March 21, 1949

Continental Engineering Co.______________Common
Interstate Telephone Co._______________Preferred

March 22, 1949

Eastern Gas & Fuel Associates_______________Bonds
Gulf Power Co.______________________Bonds
Hollingsworth & Whitney Co.________Debs. & Com.
Ohio Public Service Co.__________Bonds & Common
Southern Pacific Co., noon (EST)___Equip. Tr. Ctfs.
Sylvania Electric Products, Inc.___________Common

March 23, 1949

New England Telephone & Telegraph___Debenture

March 24, 1949

Colorado Fuel & Iron Corp.__________________Bonds

March 25, 1949

Wisconsin Electric Power Co.______Bonds & Common

March 28, 1949

Dallas Power & Light Co.___________________Bonds

March 29, 1949

Illinois Power Co.______________________Preferred

March 30, 1949

Missouri Pacific RR.___________Equip. Trust Ctfs.

May 5, 1949

Public Service Electric & Gas Co.____________Bonds

(Continued from page 39)

● **Incorporated Investors, Boston, Mass.**
March 4 filed 500,000 shares ($5 par) common. **Underwriter**—Parker Corp. Price, market. **Proceeds**—For investment.

● **Insurance Securities Corp., Oakland, Calif.**
Feb. 28 filed 120 units of $1,000 each single payment plan, series T, and 2,400 units of $1,200 each accumulative plan, series D, 10-year participating agreements, to create such indeterminate amount of investment units as may be necessary to service the agreements. Sponsored by depositor.

Interstate Telephone Co., Spokane (3/21)
Feb. 28 filed 5,000 shares of $5.50 cumulative (no par) preferred stock. **Underwriters**—Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp. and Pacific Northwest Co. **Proceeds**—To pay part of bank loans.

● **Investment Co. of America, Wilmington, Del.**
March 3 filed 100,000 common shares ($1 par). **Underwriter**—ICA Distributors Inc. Price, market. **Proceeds**—For investment.

● **Kansas-Nebraska Natural Gas Co., Inc.**
March 3 (letter of notification) 2,900 shares of $5 cumulative (no par) preferred stock. **Price**—$102 per share. **Underwriters**—Cruttenden & Co. and The First Trust Co. of Lincoln, Neb. To discharge indebtedness and pay for property improvements.

● **Kistler's Radar Sandwiches, Inc., Akron, Ohio**
March 2 (letter of notification) 2,000 shares of common being offered (par $1). Price, par. No underwriter. To expand the development and promotional operations of the company.

Las Vegas (Nev.) Thoroughbred Racing Assn.
Jan. 25 filed 500,000 shares 6% cumulative preferred stock (par $5) and 500,000 shares common stock (no par). **Underwriting**—None. **Offering**—To be sold in units of one share of each at $5 per unit. **Proceeds**—To purchase land and construct racing plant and for working capital.

McCormack Corp., San Francisco, Calif.
Feb. 18 (letter of notification) 7,500 shares common stock (par $10), to be sold privately at par to warrant holders; and 30,000 shares of 6½% preferred to be sold for $10 per share. **Underwriter**—A commission will be paid to Hannaford & Talbot for public sale of 28,400 shares of the preferred—but no commission will be paid on the 1,600 shares being sold to McCormack & Co. For working capital.

● **Mack's Block & Supply Co., Wilmington, Del.**
Feb. 28 (letter of notification) 20,000 shares of capital stock, of which 12,000 shares will be sold to public at $10 per share; remainder go to officers. **Underwriter**—John K. Walters & Co., Inc., Wilmington, Del. For new equipment, merchandise, land, goods and chattels.

Magnavox Co., Fort Wayne, Ind.
Feb. 7 (letter of notification) 3,500 shares ($1 par) common stock. Price at market. **Underwriter** — Cruttenden & Co., Chicago. Securities being sold solely for benefit of Richard A. O'Connor.

Mayflower Co., Salt Lake City, Utah
Jan. 17 (letter of notification) 100,000 shares (1c par) common stock. Price at market. **Underwriter**—Cromer Brokerage Co., Salt Lake City. To liquidate a loan which was obtained to pay rentals on leases and to pay future rentals.

Merchants Acceptance Corp. (3/15)
Feb. 23 filed 40,000 shares (no par) $1.50 convertible preferred stock. **Underwriter**—G. H. Walker & Co. **Proceeds**—To expand business.

Mineralized Products Inc., West Palm Beach, Florida
Feb. 11 (letter of notification) 100,000 shares ($1 par) capital stock. **Price**—$2.50 per share. **Underwriter**—Curlette & Co., Chamber of Commerce Bldg., Miami, Fla. For equipment, buildings and working capital.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

Montgomery Chiropractic Hospital, Inc., Norristown, Pa.
Jan. 31 (letter of notification) 90,000 shares of common stock (par $1), of which 70,000 will be offered in behalf of the company and 20,000 shares on behalf of others. **Price**—$2.50 per share. **Underwriter**—Buckley Securities Corp., Philadelphia. Improvements, equipment, working capital. Expected later this month.

Moore-Handley Hardware Co., Inc.
Feb. 18 filed 44,825 shares of common stock (par $1) which company plans to buy back from Equitable Securities Corp., Union Securities Corp., Selected Industries Inc. and Tri-Continental Corp. for resale to its directors, officers and employees and members of their immediate families. **Underwriting**—None.

● **Mountain States Telephone & Telegraph Co.**
March 4 filed 241,101 shares of capital stock ($100 par). **Underwriting**—None. **Offering**—Stockholders of record March 23 may subscribe to the shares in the ratio of one share for each three shares held at $100 per share. **Proceeds**—To repay advances from American Telephone & Telegraph Co. (parent) and for general corporate purposes.

Murphy Chair Co., Owensboro, Ky.
Feb. 14 (letter of notification) 1,000 shares of common. **Price**—$1.125 per share. **Underwriter**—J. J. B. Hilliard & Son.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

● **National Security Life Insurance Co., Kansas City, Mo.**
Feb. 23 (letter of notification) 15,000 shares ($5 par) capital stock. To be offered to present stockholders at $10 per share. No underwriter. To meet capital and surplus requirements and for additional operating capital.

New England Tel. & Telegraph Co. (3/23)
Feb. 18 filed $35,000,000 25-year debentures. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co; Halsey, Stuart & Co. Inc. **Proceeds**—To redeem on June 1, 1949, at their principal amount $35,000,000 first mortgage 35-year 5% bonds, series A, due June 1, 1952. Expected about March 23.

New York State Electric & Gas Corp. (3/10)
Feb. 11 filed 880,000 shares ($25 par) common stock held by General Public Utilities Corp., parent. **Offering**—Shares will be offered to stockholders of G.P.U. of record March 10 at the rate of one share for each 10 shares of G.P.U. common held. Rights will expire April 11. **Underwriters**—A fee is to be paid by G.P.U. to participating dealers who have been instrumental in obtaining subscriptions. The First Boston Corp.; Lenman Brothers; Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane, will act as dealer managers. Expected Mar. 10.

Nielsen Television Corp., New York (3/14-16)
Feb. 24 (letter of notification) 4,000 share of 6% cumulative non-convertible preferred stock (par $25) and 10,000 shares of common stock (par 25¢). **Underwriter**—Charles H. Drew & Co., New York. **Offering**—To be offered in units of one preferred share and 2½ common shares at $25.625 per unit. Capital requirements.

● **Northern Natural Gas Co., Omaha, Neb.**
March 9 filed 406,000 additional shares ($10 par) common. **Offered**—To be offered to common stockholders of record March 30 at rate of one new share for each five held. **Proceeds**—For construction and to replenish working capital.

Ohio Public Service Co. (3/22)
Feb. 23 filed $10,000,000 first mortgage bonds, due 1979, and 1,000,000 shares ($5 par) common stock of which Cities Service Co. would sell 638,160 shares and the company 361,840 shares. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc. (both); Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly on stock); Otis & Co. (bonds); Salomon Bros. & Hutzler (bonds); Lehman Brothers (bonds). **Proceeds**—Ohio would use proceeds for construction and to repay a $3,000,000 temporary bank loan. Cities would use proceeds from sale of Ohio stock to reduce its outstanding 5% debentures due 1958. Expected about March 22.

Oklahoma Gas & Electric Co.
Feb. 25 filed 89,000 shares ($20 par) common stock. **Offering**—To be offered for subscription by stockholders. The subscription offer will be made on the basis of one new share for each 10 shares of common held. Standard Gas & Electric Co., parent, plans—if the Commission permits—to subscribe for 50,002 shares of the proposed issue. **Underwriter**—None. **Proceeds**—For construction.

Pacific Gas & Electric Co.
Jan. 28 filed 754,038 shares of common stock (par $25). **Offering**—Offered at par to stockholders of record Feb. 25 at the rate of one new share for each 10 shares held. Rights expire April 8. **Underwriting**—None. **Proceeds**—For extensions, additions, etc.

● **Pacific Lighting Corp., San Francisco, Calif.**
March 4 filed 100,000 shares of $4.50 cumulative (no par) preferred stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—For construction.

Pepsi-Cola Bottling Co. of Wash., D. C.
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes.

Playboy Motor Car Corp., Tonawanda, N. Y.
Dec. 29 filed 1,000,000 shares of class A 20-cent preferential dividend series ($3 par) common stock and 1,000,000 shares of class B (5¢ par) common stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—To be offered in units of one share each. **Price**—$3½ per unit. **Proceeds**—For purchase of equipment and working capital.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

Robinson Plywood & Timber Co., Everett, Washington
Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. Indefinitely postponed.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

Scovill Manufacturing Co., Waterbury, Conn.
March 2 filed 49,850 shares ($100 par) cumulative preferred stock. **Offering**—To be offered for subscription by common stockholders of record March 22 on basis of one new share for each 24 common shares held. Rights would expire April 6. **Underwriter**—Morgan Stanley & Co. will purchase unsubscribed shares. **Proceeds**—To reduce bank loans.

● **Seminole Oil & Gas Corp., Dallas, Tex.**
March 3 (letter of notification) 30,000 shares ($1 par) common. **Price**—$2 per share. No underwriter. No proceeds to issuer.

● **Serene Perfumes, Inc., New York**
March 2 (letter of notification) 100 shares of class B (non-voting) common stock (no par). **Price**—$100 per share No underwriting. Manufacture and sale of perfume and other cosmetics.

● **Smith (T. L.) Co., Milwaukee, Wis.**
March 3 (letter of notification) 70,000 shares of common stock. **Price**—$4 per share. No underwriter. To increase working capital.

Southern States Iron Roofing Co., Savannah, Georgia
Feb. 21 filed 30,000 shares ($1 par) common stock, to be sold at $10 per share on behalf of three stockholders. **Underwriting**—None.

Southern Union Gas Co., Dallas, Tex.
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—Offered to holders of outstanding stock of record Feb. 24, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Price** $12.50 per share. Rights expire March 28. **Underwriting**—None. **Proceeds**—For construction and betterments. Effective Feb. 23.

● **State Bond and Mortgage Co., New Ulm, Minn.**
Feb. 28 filed $10,000,000 of accumulative savings certificate series 1217-A. **Underwriter**—None. **Price**—$85.68 per unit. **Proceeds**—For investment.

● **Sunshine Packing Corp. of Pa., Smedley St., North East, Pa.**
March 4 (letter of notification) $275,000 preferred stock and $13,750 common stock. **Price**—Preferred, $100 per share; common, $5 per share. No underwriting. Working capital.

● **Sylvania Electric Products Inc. (3/22)**
March 8 filed 250,000 shares (no par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis; White, Weld & Co.; Lee Higginson Corp.; Estabrook & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To expand facilities for making cathode ray television tubes.

Taylor Food Co., Raleigh, N. C.
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For additional working capital.

● **Tennessee Odin Insurance Co., Knoxville, Tennessee**
Feb. 28 (letter of notification) 10,000 shares (no par) capital stock. To be offered at $8.50 per share. No underwriter. To discharge certain tax and other liabilities.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

United Utilities & Specialty Corp.
Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

● **Vision, Inc., New York**
March 3 (letter of notification) $35,000 Class B subordinated notes. **Price**—Par. Underwriting, none. Organizational expenses.

Walthall Natural Gas Co., Inc., Tylertown, Mississippi
Feb. 4 (letter of notification) 6,500 shares ($25 par) 5% preferred and 26,000 shares ($1 par) common. To be offered in units of one preferred and two common at $30 per unit. **Underwriter**—T. J. Feibleman & Co., New Orleans, La. To construct gas line and natural gas system; for working capital and contingencies.

West Indies Sugar Corp., New York
Feb. 14 filed 74,880 shares ($1 par) common stock. **Offering**—To be offered in exchange for 16,000 shares ($100 par) common stock of Compania Azucarera Boca Chica, C or A. **Underwriting**—None.

Wisconsin Electric Power Co. (3/25)
Feb. 14 filed $10,000,000 first mortgage bonds, due 1979, and 266,093 shares ($10 par) common stock. **Underwriters**—Bonds will be sold at competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co. Stock will be offered to existing holders at the rate of one share for each 10 shares held, plus additional shares not taken by subscription by other stockholders. Lehman Brothers and Robert W. Baird & Co. are co-managers of a group of dealers which will solicit subscriptions. **Proceeds**—To reimburse the company's treasury for capital expenditures. Expected about March 25.

Prospective Offerings

● **Alabama Gas Corp., Birmingham, Ala.**
March 4 company asked SEC permission to sell competitively $6,000,000 first mortgage bonds, series A, due 1971. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers; Harriman Ripley & Co., Inc.; The First Boston Corp.

● **Alleghany Corp.**
March 4 reported company plans issuance of $9,000,000 collateral trust notes to retire outstanding bank loans. Underwriters may include Dillon, Read & Co. Inc., and Hemphill, Noyes & Co. (jointly), and Blyth & Co., Inc.

American Telephone & Telegraph Co.
Feb. 16 directors voted to recommend that the stockholders at their annual meeting April 20 authorize a new issue of convertible debentures which would be offered pro rata to stockholders. The amount is to be determined later but is not to exceed $100 of convertible debentures for each six shares of stock held. On the basis of the number of shares outstanding at Feb. 15, 1949, the amount of the issue would be approximately $391,000,000 if the maximum offering of $100 of debentures for each six shares of stock outstanding is made.

The new debentures would be dated June 20, 1949. It is contemplated that they would bear interest at a rate of not more than 3½%, would mature not later than June 20, 1964, and would be convertible into A. T. & T. stock at a conversion price or prices not exceeding $150 per share.

● **Arkansas Power & Light Co.**
April 13 stockholders will be asked to approve the issuance and sale at public bidding of $8,300,000 sinking fund debentures, the proceeds to be used to finance part of the company's construction program. Probable bidders: White Weld & Co.; The First Boston Corp.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.

Atlantic Coast Line RR.
In anticipation of the maturity on July 1, 1952, of its first-consolidated mortgage bonds, stockholders will vote April 19 on amending the indenture of the general-unified-mortgage, dated April 1, 1914, to include about 705 miles of unmortgaged railroad lines. At present, there are outstanding $50,724,000 of first-consolidated-mortgage, 50-year, 4% bonds in the hands of the public and $465,000 are pledged by company. To provide for the maturity of these bonds, the road has in its treasury $100,479,000 of general-unified-mortgage bonds. With the retirement of the first-consolidated mortgage bonds, the general-unified-mortgage bonds then would become the first and only lien, excluding equipment trust certificates, on all the company's lines. Under the proposed amendment to the indenture of the unified bonds, the management would have the right to determine the interest rate, conversion, sinking fund, prior redemption provisions and maturity date, except that the maturity date may not be later than June 1, 2014. The change would not affect the series A and series B general-unified-mortgage bonds outstanding. Pending approval by stockholders, the company said that it had no plans for the offering of the general unified bonds to the public. Probable bidders include Halsey, Stuart & Co. Inc.

Bell Telephone Co. of Pa.
Jan. 3 company filed with the Pennsylvania Utility Commission an application for authority to issue $25,000,000 25-year debentures on a competitive basis. Proceeds will be applied to the payment of advances from the American Telephone & Telegraph Co. for expenditures on additions and improvements to plant. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Union Securities Corp. (jointly). Registration expected in March with offering scheduled for April.

Cambridge (Mass.) Electric Light Co.
Feb. 24 company asked SEC authority to sell $2,750,000 25-year notes, series A, due 1974, through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Kidder, Peabody & Co.; Otis & Co. For the purpose of funding presently outstanding borrowings.

● **Cherry Rivet Co.**
March 16 stockholders will vote on increasing authorized common stock and on creating a new issue of preferred. New shares would be available for sale to provide additional capital should occasion arise.

Chicago Rock Island & Pacific RR. (3/15)
Company will receive bids at its office, Room 1136, La Salle St. Station, Chicago, up to 11:30 a.m. (CST) Mar. 15, for the purchase of $2,808,000 equipment trust certificates, series C, dated April 1, 1949, due in 24 equal semi-annual instalments from Oct. 1, 1949-April 1, 1961. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

Delaware, Lackawanna & Western RR. (3/16)
The company has issued invitations for bids to be received by noon (EST) March 16 at Room 2008, 140 Cedar Street, New York, for the purchase of $3,807,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Freeman & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

Ex-Cell-O Corp.
April 14 stockholders will vote on increasing authorized common from 500,000 shares to 1,000,000 shares. Company does not plan issuance of additional stock at this time. Traditional underwriter, Baker, Simonds & Co.

Indianapolis Power & Light Co.
March 1 company has asked the Indiana P. S. Commission for permission to issue $8,000,000 first mortgage bonds and 107,226 shares of additional common stock. The new common would be offered for subscription by the present stockholders, in the ratio of one new share for each 10 shares held. Company has previously asked permission to sell the bonds privately to Metropolitan Life Insurance Co. However, Halsey, Stuart & Co. Inc. said it would be interested in bidding for the bonds. Other investment houses who may bid for the bonds are Otis & Co. (Inc.); Lehman Bros.; Blyth & Co., Inc.

● **Liggett & Myers Tobacco Co.**
March 8 company contemplates offering 784,235 shares of unissued common stock for subscription for pro rata by common stockholders in the ratio of one new share for each four shares held. A registration statement covering the proposed offering will be filed with SEC this month. The purpose of the proposed financing is to reduce temporary bank loans required to finance leaf tobacco inventories and "to maintain a conservative capital structure." Decision on underwriting has not as yet been determined.

Madison Gas & Electric Co.
New financing will be necessary to provide funds for contemplated plant additions aggregating about $3,000,000, according to the annual report, but the form and amount of the financing have not yet been determined. Of said amount, approximately $1,900,000 will be spent in 1948 and the remainder in 1949. Probable bidders for common stock will include Otis & Co.

● **Merck & Co.**
March 9 reported company plans to split its common stock two for one and to arrange new financing of $5,000,000 to $7,000,000. Details have not been completed. Traditional underwriters: Goldman, Sachs & Co. and Lehman Brothers.

● **Michigan Consolidated Gas Co.**
March 9 reported company is planning sale of $14,000,000 in new bonds and $7,000,000 in preferred stock in late spring or early summer. Probable bidders: White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Bros.; Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co., Inc.; Dillon, Read & Co.; First Boston Corp.

● **Milwaukee Gas Light Co.**
March 8 reported company contemplates new financing this year or next. Nothing definite has been agreed on at present.

Mississippi Power Co.
Feb. 28 company asked SEC authority to issue and sell at competitive bidding $2,000,000 30-year first mortgage bonds and 100,000 shares of common stock (no par), to be sold to Southern Co. (parent) for $2,000,000. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Equitable Securities Corp.; Otis & Co.; Shields & Co.; The First Boston Corp.

Missouri Pacific RR. (3/30)
Feb. 25 reported company plans sale of $4,250,000 equipment trust certificates, probably about March 30. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); White, Weld & Co.

New England Electric System
May 17 stockholders will vote on increasing the authorized capital stock by 1,000,000 shares, also in reducing the par value of the stock to $1 from $20. There are no plans at present for sale of additional common stock, but company wishes to be in a position to sell additional stock to finance the system's expansion program, if it seems advisable to do so. Traditional underwriter: The First Boston Corp.

Northern States Power Co. (Minn.) (3/15)
Feb. 21 Standard Gas & Electric Co. plans to offer its holding of 364,684 (no par) common shares of Northern States for sale through competitive bidding. Probable bidders: Otis & Co., Lehman Brothers and Riter & Co. (jointly); The First Boston Corp.; Smith, Barney & Co.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Shields & Co.; Goldman, Sachs & Co. and Harriman Ripley & Co. (jointly). Expected about March 15.

● **Pacific Gas & Electric Co.**
To permit flexibility in planning the financing of its large construction program, company is asking stockholders on April 12 to increase authorized first preferred stock from 8,000,000 to 12,000,000 shares and the authorized common from 10,000,000 shares to 12,000,000 shares. At present time no decision has been made regarding further sales of stock (other than present offering to stockholders of 754,038 common shares).

Public Service Electric & Gas Co. (5/10)
Feb. 25 reported company expects to open bids May 10 on its proposed issue of $75,000,000 first and refunding mortgage bonds. Proceeds from the sale will be used in part to retire $28,455,800 prior lien bonds and to pay off $20,000,000 2% and 2¼% bank loans, due Sept., 1950. The remainder will be added to the company's general funds to help finance its construction and expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Lehman Brothers (jointly).

Radio-Keith-Orpheum Corp.
Howard Hughes, owner of 24%, or 929,020 shs. of Radio-Keith-Orpheum Corp. stock, announced March 1 that he has designated Merrill Lynch, Pierce, Fenner & Beane and The First Boston Corp. to receive proposals from prospective purchasers of his stock holdings in a new theatre company which will acquire RKO's theatre business. The new theatre company, in which Mr. Hughes will hold 929,020 shares of stock, will result from a reorganization plan for the parent organization to be considered by RKO stockholders at a special meeting on March 28. The reorganization is pursuant to a consent decree in an anti-trust action, entered into by RKO and the government last year, which requires that on or before Nov. 8, 1949, the theatre business and the motion-picture operations of RKO be operated wholly independently of one another. Mr. Hughes has elected to dispose of his interest in the theatre company, while retaining the film activities of RKO.

● **St. Louis-San Francisco Ry. (3/17)**
The company has issued invitations for bids to be received March 17 for the purchase of $4,260,000 1-to-15-year equipment trust certificates. Proceeds from the proposed offering will finance for the road not more than 75% of the cost of new equipment. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Southern Pacific Co. (3/22)**
Company will receive bids at its office, Room 2117—165 Broadway, New York, up to noon (EST), March 22, for the sale of $15,900,000 equipment trust certificates, series AA, due in 10 or 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **Spokane, Portland & Seattle Ry. (3/14)**
Feb. 25 company applied to the ICC for authority to issue $4,500,000 equipment trust certificates, to be dated April 1, 1949, and to mature in 15 equal annual installments of $300,000 beginning April 1, 1950. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers. **Bids**—Bids for purchase of certificates will be received at company's office, 14 Wall Street, New York, up to noon (EST), March 14.

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Staten Island Edison Corp.

Jan. 28 New York P. S. Commission authorized corporation to issue $2,750,000 30-year first mortgage bonds and $4,000,000 in new preferred stock. Proceeds from the bonds would retire the company's short-term indebtedness and provide funds required for expansion. Proceeds from preferred stock would be used by company to carry out its plan of recapitalization. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co.; Otis & Co. On preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp.

● **Sun Oil Co.**

March 15 proposal to increase the authorized capital stock of company by an additional 2,000,000 shares of common stock will be voted upon. A total of 4,928,597 shares of common stock were outstanding as of Dec. 31, 1948.

Utah Power & Light Co.

Jan. 21 reported company is expected to sell $3,000,000 bonds in April to finance its plant expansion. Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Blyth & Co., Inc.; Otis & Co. Company is expected to raise new money through sale, probably in May, of 148,000 additional shares of common stock. The stock will first be offered for subscription by present stockholders. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co.

Wabash RR. (3/10)

The company has issued invitations for bids to be received before noon (EST) March 10 for the purchase of $3,165,000 equipment trust certificates, to be dated March 1, 1949, and to mature in 15 annual instalments from March 1, 1950, to March 1, 1964. Present offering will constitute the first instalment of a proposed issue of $9,690,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers.

● **Waltham (Mass.) Watch Co.**

March 8 reported Otis & Co. has agreed, subject to court approval, the trustees and the SEC to handle the offering of $2,000,000 of common stock, on a "best effort" basis.

Wheeler, Osgood Co., Tacoma, Wash.

Feb. 23 reported stockholders will shortly be asked to approve issuance of 170,000 shares (par $5) of cumulative convertible preferred stock and 150,000 shares of common, the proceeds to be used to provide additional working capital. Sills, Minton & Co., Inc., is expected to underwrite the offering.

Our Reporter's Report

Currently things are decidedly dull in the investment market with new issues against sluggish and the seasoned market offering little opportunity for trading profits, according to those in the field.

This week is passing without having produced much in the way of actual new business, that is offerings of new securities. Meanwhile traders with customer orders to fill report the general market pretty much a "nominal" affair.

Consensus is that it is best described as "very thin both ways." In other words an order market lacking for incentive in either direction.

As an example of the prevailing dearth of interest the story is told of one trader who has had a "short position" for some six weeks, and for sheer lack of offerings has been unable to close out the trade.

Whether or not the projected bill put before the New York legislature the other day, designed to broaden the scope of possible savings bank investment operations, will stir up any renewed interest remains to be seen.

But there is the likelihood, of course, that some traders may seek to anticipate favorable action on this measure, since it has the blessing of the State Banking Department.

Such a development could mean careful accumulation of good-seasoned issues which for one or another of the many technical reasons involved, happens to be ineligible for the list of issues prescribed as satisfactory for the banks.

Savings Bank Bill

Mutual savings institutions undoubtedly would welcome passage of the liberalizing measure which would permit them to invest up to 100% of their surplus in securities outside the legal list.

Enactment of the measure would make available a potential $800 million of investable funds and would provide the banks with the opportunity of obtaining a better than average return on that part of their capital.

A bank could not, under the bill, acquire more than 5% of the liabilities of a single issuer; or in the case of a single borrower not more than 2% of its (the bank's) assets. To keep the savings firms out of commercial field they would be required to invest in bonds with not less than two years' maturity from the issue date.

West Penn Power

West Penn Power Co.'s sale this week of $10,000,000 of new 30-year first mortgage bonds and and 50,000 shares of additional preferred stock brought competitive bidding in its full array.

Six groups bid separately for the bond issue and the same number sought the stock on individual bids, while the company received a total of three "basket bids" for both issues in a bundle.

The awards were made, however, on the basis of the separate bids, the successful group paying the company 100.71 for the bonds as 2⅞s and preparing for reoffering at 101.10 to yield 2.82%.

The stock was "knocked down" on the high bid of $102.50 a share, less $1.79 a share underwriting compensation, as a 4.10% dividend payer.

Columbia Gas Next on List

Bids are scheduled to be opened next Tuesday on Columbia Gas System's $20,000,000 of new 25-year debentures, and indications pointed to participation of a number of syndicates.

Prospective bidders met yesterday with company officials to go over the data contained in the registration statement. Columbia will use the funds to finance in part the cost of its extensive construction program now under way.

Big Stock Issue Looms

Another major attempt at equity financing by an operating utility came into prospect when Illinois Power Co. registered with the Securities and Exchange Commission to cover a projected 200,000-share issue of $50 par cumulative preferred stock.

Call for bids on that undertaking could be along in time for marketing toward the end of the month. Proceeds will put the company in funds to liquidate short-term bank loans of about $10,000,000 outstanding with New York and Chicago institutions.

Securities Business Opportunities And the Public Interest

(Continued from page 6)

—and I don't mind telling you that I was so thoroughly frightened that the music of the Heavenly harps rang in my ears during the whole run. The brakeman was equally frightened and as a matter of fact abandoned the ship —or the engine rather—before we were half way in. But to get back to labor's stake in the security market.

Speaking a few years ago at an annual convention of the Investment Bankers Association, William Green, President of the A. F. L., expressed himself as follows:

"Labor is tremendously interested in the enactment of sound and constructive legislation regarding stock market enterprises, the sale of securities and the bases of investment. Labor is conscious of the fact that the nation must guard against excesses in the field of investment such as occurred in 1929. On the other hand, it is strongly opposed to the enactment of oppressive legislation. It maintains that legislation regulating the sale and marketing of securities should serve to protect investors, that its objective should be to preserve security markets, functioning so well, under reasonable and wise regulations, as to attract such additional capital as business may require in order to maintain and expand opportunities for work and, at the same time, preserve the fruits of labor for economic security."

It is highly improbable that Mr. Baldanzi, being the good CIO man that he is, would endorse everything that A. F. of L.'s Mr. Green says; but I'd lay odds that he concurs fully in the expression quoted above. Enlightened labor leaders, of whom there are many, have a way of "thinking things through" to a far greater extent than the average so-called "businessman."

Whistler says that there is no expedient to which most men will not resort to avert the really serious labor of thinking. Listen to the tale of a man who thought things through to the nth degree.

The incident was recounted to me by a friend of mine, a fellow New Englander, now a manufacturer in the Middle West. He was born in a small town in Vermont to which he occasionally returns for a visit.

He told me that a short time before he had spent a week-end in the old homestead with his father and that on Sunday they went to church. At the close of the sermon the pastor asked the trustees to remain to discuss a subject that the church treasurer regarded as demanding attention. My friend, being a bit curious, suggested to his dad that they retire to a pew in the rear of the church and remain to see what it was all about.

It seems that this little church had no indebtedness — being a Vermont church it wouldn't have —and moreover had an investment fund of $9,000 of which $5,000 was invested in U. S. Governments and $4,000 in some Vermont insurance company. My friend described the insurance company as a very old, respectable and solid one, whose stock was as good as old wheat. However, when the treasurer had gotten his associates around him he announced that the purpose of the meeting was to discuss the church's investment fund. Said he, "You know that of our $9,000, $5,000 is invested in U. S. Government bonds, and I don't think they're worth a damn. (Rather strong language for a Vermont church treasurer but I am quoting my friend verbatim.) The other $4,000 is invested in ——— Insurance Co. stock and I don't think much of that either. I guess we'd better consider a substitution."

Upon being asked what he would suggest he had an answer ready—as a man of his type would. It seems that a few years before a spring freshet had carried away a bridge in that general neighborhood and that his town had bonded itself for its share of the cost of replacement. Those bonds looked good to the church treasurer. He recommended that they sell the governments and the insurance company stock and put the proceeds into the bridge bonds. "We can make *them* worth something," he said.

Here was the measure of the man. First—that which was obvious to the general public, i.e., the eminent worthiness of the governments and the insurance stock, didn't mean a thing to him. Wisely or otherwise he had thought the problem through and arrived at his own conclusion that even a good thing could be bettered. Secondly—he was a rugged individualist who didn't propose relying on either Uncle Sam or those in control of the insurance company. He figured that he and his fellow townsmen could see to it that the bridge bonds were paid, thanks to the taxing power of their town.

He didn't follow the hackneyed maxim that one should buy a good security, put it away and forget it—which doesn't make sense and never did. There was a time, many years ago, when no trust fund was regarded—up in New England—as prime unless it contained some N. Y., N. H. and H. stock. There is an instance of a New Englander stipulating in his will that the New Haven stock demised thereunder should never be sold by his heirs. Almost everybody took the stock for granted.

But 25 or 30 years ago, my firm put out a carefully prepared "bear" circular on the stock and I was promptly summoned to the office of the secretary of the N. Y. S. E. and severely reprimanded for my temerity.

Subsequently the stock declined to about 1/530th of 1% of the figure at which it stood as of the date of our circular. I suppose that's the way it should be expressed before this august body of analysts and statisticians. To the ordinary mortal I would have said simply that the stock tailspinned from $67 to 12½ cents.

Originality Needed

What this glorious country of our needs, besides a good 5 cent cigar, is a few more people like this Vermont church treasurer. He was of the type of those who would think through and entertain few if any illusions, even though his final conclusion might not always be correct. One of our problems is to convince security holders that they should do real thinking about their stake in the security market.

Security holders, as such, well could take a leaf out of the labor movement book. At the outset the labor union movement had little if anything behind it other than determination and more determination; no experience to guide it and, as far as I know, little if any cash. As against that think for a moment of the resources back of the security holders of our country. Do you mean to tell me that a group of intelligent men with a true pioneering spirit couldn't organize a security holders' protective association that would develop a real momentum?

It has been said more than once that it would be futile to attempt to organize such a group, one argument being that most security holders are something else first and stock or bondholders second. Lately a writer on the subject held that—to use his exact words— "The investors of this nation are individualists who exercise their freedom, investing their savings where they choose and they cannot be gathered together in a class under the banner of creed, color, national origin, trade or craft." I don't get this at all. Self protection is the motive back of the desire to safeguard one's investment and the desire for self protection seems to me in no way dependent upon "creed, color, national origin, etc.".

Meryle Rukeyser, the well-known economist, in a talk before the Advertising Club of New York some time ago, expressed himself thus: "When we arouse 70 million life insurance policyholders, 45 million savings depositors and tens of millions of holders of securities to their own true interests, they will constitute an effective voice in America and will turn us on the road to progress."

An amusing instance of the use of an effective voice was recently reported in a circular of the Committee for Constitutional Government. A man wired the Chairman of the House Committee on Labor and Education asking for time to testify. He was informed, in reply, that there was no time available for him. He wired back: "The hell there is no time! Whose Congress is this anyway?" According to the report he got his time. Something tells me that he deserved it.

Maybe I'm a bit of a nut in my strong belief that a worthwhile approach to the solution of security market problems is through labor organizations—fantastic as the idea may seem to some of you or all. However, I defy you to turn up something better. To begin with, labor has a selfish interest, and self interest—not always a vice—is a powerful propellant. Labor unions, to say nothing of their individual members, are capitalists. Many of them maintain security portfolios. My firm does business for some of them. They are good and careful customers. Two of my firm's landlords are labor unions, one of them in one of our country's biggest cities where it owns a fine large office building. They are good landlords. We wouldn't ask for a better. Many unions are efficient, progressive and farsighted.

God knows I'm not sympathetic to all union activities; but, so far as that is concerned, few of you here tonight are sympathetic to all the characteristics of the old Wall Street, especially its supineness and ineptitude—Wall Street, nothing more than a generic designation of the locale of all the security business of all the country.

Anyway, labor had a job to do and it has done pretty well for

itself. Wall Street, up to recently, did nothing for itself, and even now accomplishment is little more than a prospect save in isolated cases. There's reason for hope, however. Unless I change the burden of my lay some of you good people will begin to wonder who it is on this platform tonight that is speaking for labor—whether Mr. Baldanzi or yours truly. However, we'll let that pass.

Merchandising Methods

By a coincidence only, I am sure, there lately appeared within a single week three articles, by well-known writers on financial subjects, critical of the merchandising methods of security dealers—Ralph Hendershot of the New York "World Telegram," Leslie Gould of the New York "Journal American," and Paul Talbot of United Business Service. Much of the unfavorable criticism is richly deserved.

Mr. Hendershot's article is an interesting mixture of good sound sense with a bit of something else thrown in—thrown in, I suspect with an impish motive. He said that members of the New York exchanges have never been sufficiently interested in the welfare of their customers; that their concern has been and still is centered chiefly on making money for themselves. To that I respectfully take exception.

No one can deny that the profit motive is here present precisely as it is in the practice of law or the selling of shoes. But that the dealer in securities is not concerned with the welfare of his customer just isn't so. Enlightened self interest forbids. It is an elementary proposition that a merchant or a professional man profits most when in the long run his customer or client fares well.

If Mr. Hendershot chooses to to maintain that security dealers generally have given less attention than they should have to qualifying themselves for the acquiring and effective handling of business, I'll go along with him 100%. But that is a horse of a quite different color. The article would leave the unsophisticated reader with the impression that security dealers generally are intellectually dishonest—rather than merely blind to what is best for them and, by the same token, for their customers.

Further, Mr. Hendershot claims that members of the New York exchanges never have made a reasonable profit. If sweet reasonableness in profit-making in the security business is to be judged on the basis of capital invested and/or effort and intelligence employed, the members of these exchanges have fared pretty well as compared with people in other vocations. And it may not be out of place to add that, to many who are attached to that line of activity, the security business is more of an avocation than a vocation—and they seem to subsist.

Mr. Hendershot states that the general public still thinks of Wall Street in terms of 1929. The more that public reverts to 1929 the less it will blame the security dealers provided it takes the trouble to go behind the curtain. My own firm, like many others of the older houses in the Street, foresaw the crash, and like many others of the more experienced firms, did its best for a year or more to induce customers to lighten their loads. That is a matter of record.

Don't for a moment think I'm intimating that all wisdom and self-restraint lay in the heads of people in the security business. Too many of them lost their sense of proportion and got caught in the maelstrom themselves. The casualties were by no means confined to the customers' list.

Nothing that we could say to convince the average client that the situation was fraught with danger to him seemed to register. And our experience in this respect differed in no way from that of other representative New York Stock Exchange houses.

A few months before the break the heads of several of the largest houses met for a conference to see if something could be done to curb the appetites of their clients. A discussion of the situation was not productive of any worthwhile ideas and we went back to our offices satisfied that we couldn't do anything more than to have individual talks with as many of our customers as possible, to arouse them to a sense of danger. A week or two later I asked one of the conferees what luck he was having in persuading his customers to lighten their loads. His answer was—"My God, Pierce, if I phone a customer, urging him to *sell 100 shares*, all I can get out of him is an order to *buy 200*."

My firm boosted margins to points previously unheard of; we refused to buy any stocks listed on a quite prominent exchange except for cash, with the result that we were regarded by some members of that exchange as fit subjects for expulsion; even on some of the issues on the New York Stock Exchange that we carried we went as high as 90%. Many others we refused to buy on any basis except for cash.

And how were our efforts met, gentlemen?

At least two New York newspapers panned us beautifully for not recognizing that a bright new era had dawned in the security world. Likely enough, there were more than two but I was too busy in those days to do much newspaper reading. Of two, however, I am sure, for in going through one of my files the other day I ran across two related clippings. The Metropolitan newspapers were quite as much to blame for the debacle as were Exchange members; and the banks were not wholly beyond criticism.

Prodding Needed

Correctly or incorrectly, I've suggested impishness as a possible motive in the writing of Mr. Hendershot's article. I've known him slightly and read him rather regularly for many years. One is justified in having a wholesome respect for his mental processes. Isn't it likely that he wrote as he did partly in a measure of contempt for Wall Street's failure to make more of its responsibilities and opportunities and partly as a spur to drive it forward along constructive and enterprising lines? It's no two-to-one bet that he didn't. And if he did, the more power to him. Many, if not most, security dealers need prodding. And I for one am genuinely grateful to Mr. Hendershot for having written as he did.

Mr. Hendershot, Mr. Gould and Mr. Talbot all denounced the quality of merchandising that permits the current situation to exist—and in their denunciation they are amply justified.

For about 140 years the New York Stock Exchange had drifted along in smug complacency, indifferent to public opinion and quite justifiably regarded as no end of a snob. Like the Bourbon of old, it never learned and it never forgot. About 50 years ago, the Exchange had a president who held that, if he could have his way, a wall would be built around its Exchange that would keep the public away from that sacrosanct resort for closed minds and stiff backs. That attitude was not without precedent. In 1866, the Exchange respectfully asked the Delaware Lackawanna & Western Railroad for copies of the road's "reports and statements." The road replied to the effect that it made no reports and published no statements. That would have been a great day and age for you analysts.

A few years ago a change came over the spirit of the dreams of the Exchange fathers. A major step in the right direction was the employment of a president from outside its membership—a president not in the least under the influence of any of its old traditions—a president with a record of successful accomplishment in various other lines of big business, including, interestingly enough, farming on a large scale.

The job to be done, if to be done well, was of large magnitude and of varied qualities. To begin with, the members themselves had to be educated into the conviction that in a sense the Exchange is a public utility which can prosper in the right degree only as it stands responsive to the public's reactions and needs. It had to convince the general public that it was not the iniquitous institution that the country at large held it to be.

It had to convince the general public that it is not something of a club run primarily for the benefit of its own members; that it is an open auction market whose sole purpose is to provide a place for dealing in securities under just and equitable principles of trade. And, finally, that it is desirable, for everybody who can afford it, to become a partner in this country's industry by acquiring shares in our worthwhile corporations. As to worthiness, that's where you good people enter the scene.

Now, all this is no small chore, but I maintain stoutly that a start in the right direction is being made. And it's up to the members to get solidly back of Mr. Schram in his well directed effort. If this is done the plan will work. I speak with a bit of authority for the good reason that for many years my firm individually has proceeded along the lines of Mr. Schram's lately projected public relations plan and we have found it highly successful. A few other large firms are acting similarly as, for instance, E. F. Hutton & Co., with their admirable newspaper campaign and Harris, Upham with their radio program. Others will follow if they know what is good for them.

It is fashionable at the present time to hold that there is no general demand for securities, but that is not true. The demand is latent but nevertheless it exists. There may be little or no apparent demand for books in a given locality but a live book agent can get into that place and sell to people who had no idea of buying until the salesman presented his arguments.

The security industry cannot afford to rest more or less complacent in the notion that without extraordinary effort and planning it will come through this time because it always has before. Perhaps it may, but then again perhaps along that road may lie failure—and it's no road to travel. Let's try the harder way—which after all should not be so hard.

We are part of a great industry. How great it is few of us vizualize. How great its potentialities, probably none of us foresees. Our first job is to make the country in general see us for what we really are.

And, my friends, that is a consummation devoutly to be wished.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Aghast as they are to admit it to themselves, politicos in this town are coming to the amazing conclusion that President Truman apparently is determined to play personal politics, to subordinate his party and his following in Congress, to put himself "above" the party, and in effect to tell these Congressional followers that if they won't go along 100% with him, they can in effect just go jump into the river.

The implications of this prospect upon legislation affecting business —taxes, controls, extension of the Welfare State idea, etc.—are as broad as they are at the moment obscure. If this state of affairs continues the President is likely to lose his control of Congress, discourage much of his "liberal" following, and perhaps in time precipitate an epochal struggle between the Congress and the White House.

* * *

Two of the most recent actions of the President are said to make no sense whatever except as an explanation that the President has decided that even if he doesn't mean "l'etat c'est moi," at least he does mean "the party, it is I."

These two actions were the President's insistence that his own version of the new labor relations law be reported out of committee unadulterated without even an expression of the ideas of the "liberals" of both parties, and that cloture in the Senate be applied by a "simple majority" of a Senate, a quorum being present.

* * *

With respect to a first class politician in Mr. Truman's spot, there are certain obvious political ground rules he should follow.

Mr. Truman's spot is that having promised an unqualified repeal of the Taft-Hartley law, he can't deliver. Even he has tacitly so admitted in sponsoring a "substitute" for the T-H law. Mr. Truman's position is that he presides over a dissimilar party following which cannot give him a majority for his ideas on labor (and much other) legislation, and that he depends upon the "liberals" of the Republican party in the Senate to provide him with an optimum legislative achievement on labor and other legislation.

The ground rules are that Mr. Truman should work persuasively, if quietly, with the Congress, particularly the Senate, to obtain the maximum achievement of his legislative objective consistent with creating a minimum of disaffection within his own following. Mr. Truman would not need to worry about how much the labor bosses howl for publication about the failure to deliver on the promise. They know who is on their side. They would be particularly inspired by a good job of political craftsmanship which would result in real enthusiastic support. As for the moderates, or conservatives, they would be satisfied to see a law passed which did not do them too much violence with their non-organized constituents, and avoided the necessity for battle with the White House. Most politicians will sacrifice a lot for harmony; that is to say, to avoid a fight.

Such an approach would have an incalculable strategic advantage. It is that it would go a long way toward buttoning up the support of the GOP lefties, who since Nov. 2, 1948, have been convinced that Mr. Truman's line of political merchandise was the most saleable. Mr. Truman ought to exert real effort to win the GOP "liberals," for with their support he could—the House being a semi-regimented body—win approval of a most substantial legislative program, even if the achievement of necessity was far short of the reckless campaign promises.

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Instead of following the conventional ground rules, Mr. Truman exerted his influence with the leftish majority of the Senate Labor Committee to get his T-H "repealer" and substitute reported out as is. Unless there is something like a political revolution around these parts, that is the last victory Mr. Truman will obtain on labor legislation in the Senate.

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In the process the Republican "liberals," Aiken of Vermont and Morse of Oregon, who were denied amendments of their own, screamed as loud as Senator Taft. Mr. Truman seems to be doing as much to welcome the GOP "liberals" into his political house as a householder would welcome a case of the black plague. He is "making Republicans" out of the GOP lefties.

That action insures that even less than what Mr. Truman wants will be written into labor legislation, and probably gives Bob Taft the whip hand. And the continued treading on the toes of this GOP left-wing group bodes ill for Mr. Truman's legislative achievements on other fronts.

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Then there is the matter of this shadow-boxing affair, the proposed amendment to the Senate rules to prevent a filibuster on a "motion to consider" legislation whilst retaining cloture, subject to a vote of two-thirds of the Senate, on actual legislation.

It is one of the poorest-kept secrets of Washington that the Southerners have no great objection to doing away with the filibuster on motions to consider legislation, or other procedural points. They are confident that a filibuster on legislation itself, and amendments, is adequate, and they know what all old hands in the capital know, which is that filibusters seldom persist except with the tacit consent of the majority, however contrariwise the majority talks for publication.

Tactically, all the Southerners were trying to do was to guarantee that cloture could not be brought about by a majority vote of the Senate. They have known that the Truman followers wanted or professed to want cloture by a majority of the Senate. When Senator Lucas of Illinois, the Democratic leader, came out openly and for the record for majority cloture, then everything was fixed up hunkey-dory. Lucas's statement set up the basis for a deal.

After a week or so of air-rending, the Administration forces would concede defeat on majority cloture. The Southerners would concede defeat of the right to filibuster on procedural matters. The proposed amendment would pass, and Lucas or some one would give a firm commitment that the Democratic majority would not attempt to impose filibuster by a majority of the Senate at any time during this Congress.

Southerners then would have fought a great battle for their constituents and so would those Senators from the metropolitan centers of the North, for their large racial and religious minorities. Everybody would be happy, and everybody would win.

What went wrong with this pleasant little prospect is that the Southerners developed surprising sympathy from the Republicans. It was asserted that the showdown was delayed last week because two more than a majority would have voted down the Administration forces, but this was denied. At any rate, the strength of the opposition to the procedural motion was so great that the Administration forces postponed the show-down.

Then along came Helpful Harry. He cracked in his press conference a week ago that they ought to do away with the filibuster by a simple majority. This is a vastly different thing from a majority of the Senate. Under Mr. Truman's plan, as few as 25 members of the Senate out of a quorum of 49, could shut off debate. This scared the daylights out of everybody but the wild boys. It brought about the remarkable disavowal of the President's stand by the President's own Senate leader, Senafor Lucas. Whatever comes of the little playlet currently on the Senate floor, Mr. Truman has lost. The manager of the boxer, not content with the mauling his man was getting from the opponent, hit his own boxer while he was sitting in the corner between bells.

* * *

Mr. Truman's production of political blunders during the first quarter since his election has annoyed the professional politicians, has cooled their personal enthusiasm toward him, and has aroused some substantial suspicion between Congress and the White House. However, there was still, until the Jackson Day dinner, some disposition to shrug these blunders off tolerantly with the appreciation that there is no established correlation between the number representing a candidate's electoral votes and the number representing the candidate's intelligence quotient.

With these bulls relating to the Senate, however, there is less tolerance. Mr. Truman was a Senator. He should know the Senate. The belief is that he does know the Senate. He knows how dependent he is on "liberal" Republican support, and he knows how overwhelmingly the Senate would react toward a general thwarting of debate and a proposal to make a Senate minority as ineffective as a House minority.

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So the conclusion, suggested by the President himself in his Jackson day threat to take to the open road, is that Mr. Truman is convinced that a combination of a railroad train and Mr. Truman is politically invincible.

What Mr. Truman already has done thus far is to separate himself so far from the moderates that only a long, painstaking effort would ever bring about a restoration of Mr. Truman's leadership, a leadership he began to lose almost from the first. Mr. Truman already has guaranteed himself a wholesale dish of frustration on his legislative program.

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One of the truly surprising developments of the last week or so has been the resurgence of the landlord from a position of national scorn and oppression to one of comparative respect in the national community. This change of front was publicly signaled when Sen. Charles W. Tobey of New Hampshire, a Republican fire-eating "liberal," announced that in his opinion the Administration would have to devise some kind of a formula to provide landlords with a fair rate of return before clamping on rent ceilings.

While most people except politicians know that landlords are often widows, orphans and just ordinary folks, and have to eat, too, that fact is now being bruited about openly in Washington as though it were a new discovery.

Rent-control extension was expected to be one of the simplest of the Fair Deal's legislative problems for 1949, coupled with a toughening of controls. The subject first went to the House Banking Committee, which the House Democratic organization carefully packed with the most ardent "liberals" to avoid a recurrence of any such catastrophe as the bottling up of the public housing and clum clearance program.

Notwithstanding a heavily packed committee, it took some eight committee meetings to get the committee together on a bill extending controls for 15 months instead of the two years requested by the Administration, and with less "toughening" than the Administration requested. How tough the final rent-control extension will be will depend finally on what the Senate does with the House bill. However, sentiment has been changing in a direction against rent controls and during those earlier committee meetings the Administration leaders were scared to bring the issue to a head in executive meeting.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"That total is incorrect — I withdrew $7.50 this morning!"